

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

**COLUMBIA, SOUTH CAROLINA**

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**AUDITED FINANCIAL STATEMENTS AND OTHER  
FINANCIAL INFORMATION**

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**YEAR ENDED JUNE 30, 2012**

# State of South Carolina



## Office of the State Auditor

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

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October 29, 2012

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

This report on the audit of the basic financial statements of the South Carolina State Housing Finance and Development Authority and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2012, was issued by WebsterRogers, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

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

RHGjr/trb

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**AUDITED FINANCIAL STATEMENTS AND OTHER  
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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund for the South Carolina State Housing Finance and Development Authority (the "Authority"), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1 to the financial statements, the accompanying financial statements of the Authority are intended to present the financial position, the changes in financial position, and, where applicable, the cash flows of only the portion of the governmental activities, the business type activities, and each major fund that are attributable to the transactions of the Authority, an agency of the State of South Carolina, and do not include any other agencies, institutions, divisions, instrumentalities, or any other component units of the State of South Carolina. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2012 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mr. Richard H. Gilbert, Jr. CPA  
Interim State Auditor  
Office of the State Auditor  
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In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2012, on our consideration of the Authority's internal control over financial reporting on and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Webster Rogus LLP*

Columbia, South Carolina  
October 17, 2012

# 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, 2012.

### Financial Highlights

- Net assets of the Authority's proprietary funds increased \$10,090,606 to \$339,258,009. This increase is primarily attributable to the increase in the Authority's single family mortgage portfolio.
- The governmental activities net assets decreased \$3,684,569 to \$16,688,865. This decrease is the result of the continued disbursement of award amounts approved in previous fiscal years.
- Federal grant revenue decreased \$76,402,818 to \$144,817,481. All federal assistance received by the Authority during the current fiscal year was from the Department of Housing and Urban Development (HUD). The decrease in Federal assistance is primarily due to the completion of the Tax Credit Assistance Program (TCAP) established through HUD to ensure the financial feasibility of multifamily tax credit developments in markets that saw major declines in the syndicated value of tax credits.
- The Authority made principal payments on mortgage revenue bonds of \$83,970,000 during the fiscal year, of that total \$73,470,000 were redeemed prior to their maturity. The Authority issued \$70,000,000 in bonds under the New Issue Bond Program (NIBP). Under this program the US Treasury agreed to purchase long term agency bonds decreasing our cost of funds and allowing us to offer competitive mortgage rates. The NIBP transaction involved the release and conversion of \$36,000,000 in escrowed treasury bonds in conjunction with the issuance of \$34,000,000 in market rate bonds.
- For the fiscal year ending June 30, 2012, the Authority purchased \$16,116,963 of single family first mortgages, down payment assistance loans, and multifamily mortgages in its proprietary funds. The majority of single family production was funded through the Home Ownership Revenue Bond indenture. The Authority securitized \$53,387,051 in loans that are held as Government National Mortgage Association (GNMA) investments. The demand for single family mortgage loans declined in large part due to the discontinuance of the federal homebuyer tax credit program. The downturn in the economy continues to adversely affect single family production.
- Bonds Outstanding net of unamortized premiums and discounts and deferred losses on refundings decreased \$49,734,628 to \$740,362,961.
- The South Carolina Housing Corporation was established to administer the U.S. Department of Treasury's Hardest Hit Fund monies awarded to South Carolina in order to help homeowners avoid foreclosure. The Authority administers the program through the South Carolina Homeownership Employment Lending Program (SC HELP). The program became fully operational during this fiscal year increasing staffing levels and marketing efforts that resulted in an increase of \$27,541,793 in program payments. The program provided \$8,508,378 in Mortgage Payment Assistance, \$19,796,793 in Direct loan

Assistance and \$65,000 in Property Disposition Assistance for a total of \$ 28,370,171 in program payments during fiscal year ending June 30, 2012. Complete financial statements can be obtained from the executive director upon request in care of the Authority at 300C Outlet Pointe Blvd., Columbia SC.

## **Overview of the Financial Statements**

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

- The first two statements are Authority-wide financial statements that provide information about the Authority’s overall financial position and results. These statements, which are presented on an accrual basis, consist of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets includes all of the Authority’s assets and liabilities. All of the current year’s revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Most of the Authority’s activities are business-type activities and are reported in proprietary funds.
- The remaining statements are fund financial statements of the Authority’s proprietary funds which operate similar to business activities and for which the Authority follows an accrual basis of accounting and the governmental fund which is a special revenue fund.
- The basic financial statements also include a “Notes to Financial Statements” section that explains the information in the Authority-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 Fund accounts for the Housing Trust Fund, which was established in May 1992 pursuant to South Carolina Code of Laws, Chapter 31, Article 4. The Authority receives funding from a percentage of the documentary stamp tax on instruments conveying real property. Under this enabling legislation, the Housing Trust Fund is to be used to “increase the supply of safe, decent and affordable housing for members of the very low and lower income individuals and households.”

As such, in accordance with governmental accounting standards, the portions of net assets/fund balances that are not available for appropriation and expenditure and/or are legally segregated for a specified use are presented as restricted in the fund statement and restricted in the entity-wide statement. A number of loans issued under the Housing Trust Fund, primarily to non-profit organizations were originally structured with balloon payments maturing during fiscal year ending June 30, 2012. Based on financial reviews of each property, loans were restructured with reduced interest rates to ensure the economic viability of the affordable housing.

**Proprietary Funds-**The Authority's primary activities are in its proprietary funds, in which activities are accounted for in a manner similar to businesses operating in the private sector. Funding is primarily provided through the issuance of bonds, the proceeds of which are used to make various types of loans to finance low and moderate-income housing. HUD contracts are accounted for in the proprietary fund since the Authority receives fees to administer various HUD programs. The net assets 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 Assets.** The combined net assets of the Authority increased by \$6,406,037. The following table summarizes the financial position for the Authority as of and for the years ended June 30, 2012 and 2011.

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Total current assets	\$ 10,998,743	\$ 15,143,951	\$ 231,823,948	\$ 240,889,884	\$ 242,822,691	\$ 256,033,835
Capital assets	-	-	639,216	880,295	639,216	880,295
Non-current assets	9,395,569	10,270,606	873,294,601	903,521,114	882,690,170	913,791,720
Total assets	<u>\$ 20,394,312</u>	<u>\$ 25,414,557</u>	<u>\$ 1,105,757,765</u>	<u>\$ 1,145,291,293</u>	<u>\$ 1,126,152,077</u>	<u>\$ 1,170,705,850</u>
Total current liabilities	\$ 3,705,447	\$ 5,041,123	\$ 34,410,145	\$ 50,867,748	\$ 38,115,592	\$ 55,908,871
Total long-term liabilities	-	-	732,089,611	765,256,142	732,089,611	765,256,142
Total liabilities	<u>\$ 3,705,447</u>	<u>\$ 5,041,123</u>	<u>\$ 766,499,756</u>	<u>\$ 816,123,890</u>	<u>\$ 770,205,203</u>	<u>\$ 821,165,013</u>
Net assets in capital assets	\$ -	\$ -	\$ 639,216	\$ 880,295	\$ 639,216	\$ 880,295
Net assets-restricted	16,688,865	20,373,434	295,815,682	283,969,803	312,504,547	304,343,237
Net assets-unrestricted	-	-	42,803,111	44,317,305	42,803,111	44,317,305
Total net assets	<u>\$ 16,688,865</u>	<u>\$ 20,373,434</u>	<u>\$ 339,258,009</u>	<u>\$ 329,167,403</u>	<u>\$ 355,946,874</u>	<u>\$ 349,540,837</u>

Net assets of the Authority's governmental activities decreased \$3,684,569 to \$16,688,865. The Housing Trust Fund Act enacted by the General Assembly in 1992 restricts net assets of the fund. The Authority receives funding from a percentage of the documentary stamp tax on the instruments conveying real property to finance in whole or in part, affordable housing projects and/or developments eligible under the Housing Trust Fund Act.

Net assets of the Authority's proprietary fund increased \$10,090,606 to \$339,258,009. This increase is primarily attributable to the increase in the Authority's single family mortgage and mortgage backed investment portfolio.

**Statement of Activities:** The Statement of Activities shows the sources of the Authority’s changes in net assets as they progress through the various programs and functions. The Housing Trust Fund and SC HELP are shown as government activities and all other programs are shown as business-type activities. The business-type activities include the Single-Family Loan Programs and other activities including federal housing assistance, allocation of tax credits, 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	
	2012	2011	2012	2011	2012	2011
Revenue:						
Charges for Service	\$ -	\$ -	\$ 50,398,031	\$ 57,144,659	\$ 50,398,031	\$ 57,144,659
Tax/Grant/Federal Revenues	34,552,793	2,756,372	156,563,937	229,080,586	191,116,730	231,836,958
Total Revenue	34,552,793	2,756,372	206,961,968	286,225,245	241,514,761	288,981,617
Expenses	43,987,089	10,743,595	197,271,362	273,354,314	241,258,451	284,097,909
Document Stamp Tax	6,149,727	5,724,555	-	-	6,149,727	5,724,555
Transfers between Funds	(400,000)	(400,000)	400,000	400,000	-	-
Increase (decrease) in Net Assets	<u>\$ (3,684,569)</u>	<u>\$ (2,662,668)</u>	<u>\$ 10,090,606</u>	<u>\$ 13,270,931</u>	<u>\$ 6,406,037</u>	<u>\$ 10,608,263</u>

Revenues of the Authority’s governmental activities were derived from a documentary stamp tax, a federal grant, interest payments on loans and investment income. All expenditures were disbursement of grant awards. Revenues of the Authority’s business-type activities were primarily from federal program revenue (\$144,817,481), charges for services (\$50,398,031) and program investment and other income (\$11,746,457). Charges for services consist primarily of interest income on loans, HUD administrative fees, tax credit application fees and various other small fees, such as monitoring and servicing fees. 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 \$10,090,606 for the business-type activities. Net assets of the Authority increased from the previous year by \$6,406,037.

### Debt Administration

The Authority’s total liabilities decreased \$50,959,810 to \$770,205,203. Long-term liabilities decreased \$33,166,531 to \$732,089,611. The long-term debt consists of bonds payable at \$731,830,720 other non-current liabilities at \$54,223 and accrued compensated absences in the amount of \$204,668.

## **New Program**

The Authority intends to launch the Mortgage Credit Certificate Program (MCC) in October of 2012. The program was approved by resolution of the Authority's board of directors and will provide financial assistance to first-time homebuyers by allowing borrowers to take 30% of their annual mortgage interest payments as a tax credit against their personal income tax. The MCCs will be available to eligible homebuyers, on a first-come first-served basis, who receive mortgage loan financing from a lender for eligible homes located in the State of South Carolina. Applicants must meet first time home buyer eligibility requirements and obtain financing from a lender that meets the Authority's lender eligibility requirements and has executed an MCC agreement with the Authority. Under the program the Authority will limit eligible mortgages to those that either conform to Fannie Mae/Freddie Mac standards or are HUD/FHA insured.

## **Economic Factors**

The Authority's financial condition remained strong at June 30, 2012. The national economy has experienced a limited recovery. The sluggish economy continues to cause an increase in unemployment which in turn has resulted in higher loan delinquencies and foreclosures. The performance of the Authority's loan portfolio continues to exceed state and national averages. We continue to focus our efforts in loan servicing and loss mitigation in order to prevent foreclosure. Staff members begin the counseling process in early delinquency. We will continue to maintain constant communication with borrowers in an effort to both protect Authority assets and allow borrowers to remain in their homes.

Unfortunately, higher foreclosure rates resulted in the downgrading of most private mortgage insurers. As a result, the Authority has only funded single family mortgages insured by the Federal government since 2009.

The U.S. Treasury established the New Issue Bond Program (NIBP) in an effort to bolster the Mortgage Revenue Bond Market. NIBP provides a lower than market rate for up to 60% of the mortgage revenue bonds issued. The Authority issued \$70,000,000 under NIBP during fiscal year ending June 30, 2012. The issue was made up of \$34,000,000 in market bonds and the conversion of the remaining \$36,000,000 in bonds purchased by the U.S. Treasury and held in escrow.

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

## **Requests for Information**

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

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

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

**STATEMENT OF NET ASSETS**

**JUNE 30, 2012**

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Totals</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 9,739,372	\$ 24,091,852	\$ 33,831,224
Restricted assets:			
Cash and cash equivalents	-	87,618,018	87,618,018
Investments	-	87,480,894	87,480,894
Loans receivable	-	21,113,698	21,113,698
Accrued interest receivable:			
Loans	-	5,905,452	5,905,452
Deposits and investments	-	1,122,523	1,122,523
Accounts receivable:			
Due from grantor	-	1,507,310	1,507,310
Due from other State agency	1,285,316	-	1,285,316
Internal balances	(386,438)	386,438	-
Other	-	1,183,514	1,183,514
Loans receivable	348,988	284,592	633,580
Accrued interest receivable:			
Loans	11,463	62,327	73,790
Deposits and investments	42	11,922	11,964
Unamortized bond issuance costs	-	445,078	445,078
Other current assets	-	610,330	610,330
Total current assets	<u>10,998,743</u>	<u>231,823,948</u>	<u>242,822,691</u>
Noncurrent assets:			
Loans receivable, net of current portion	9,395,569	18,098,576	27,494,145
Allowance for doubtful loans	-	(438,755)	(438,755)
Restricted assets:			
Investments	-	168,827,372	168,827,372
Loans receivable, net of current portion	-	686,397,468	686,397,468
Allowance for doubtful loans	-	(5,640,434)	(5,640,434)
Unamortized bond issuance costs	-	6,050,374	6,050,374
Capital assets, net of accumulated depreciation	-	639,216	639,216
Total noncurrent assets	<u>9,395,569</u>	<u>873,933,817</u>	<u>883,329,386</u>
Total assets	<u>20,394,312</u>	<u>1,105,757,765</u>	<u>1,126,152,077</u>

(CONTINUED)

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

**STATEMENT OF NET ASSETS**

**JUNE 30, 2012  
(CONTINUED)**

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Totals</b>
<b>Liabilities</b>			
Current liabilities:			
Liabilities payable from restricted assets:			
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	\$ -	\$ 8,532,241	\$ 8,532,241
Accrued interest payable on bonds	-	17,408,585	17,408,585
Other liabilities	-	47,596	47,596
Mortgage escrows	-	5,224,255	5,224,255
Total liabilities payable from restricted current assets	-	31,212,677	31,212,677
Accrued compensated absences	-	499,873	499,873
Accrued salaries and related payroll expenses	-	765,516	765,516
Deferred revenue	3,001,099	285,620	3,286,719
Other liabilities	704,348	1,646,459	2,350,807
Total current liabilities	<u>3,705,447</u>	<u>34,410,145</u>	<u>38,115,592</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	-	204,668	204,668
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	-	731,830,720	731,830,720
Other noncurrent liabilities	-	54,223	54,223
Total noncurrent liabilities	-	732,089,611	732,089,611
Total liabilities	<u>3,705,447</u>	<u>766,499,756</u>	<u>770,205,203</u>
Commitments and contingencies ( <i>Note 15</i> )			
<b>Net Assets</b>			
Invested in capital assets	-	639,216	639,216
Restricted for:			
Debt service	-	32,360,160	32,360,160
Bond reserves	-	8,523,517	8,523,517
Housing projects and development	16,688,865	254,932,005	271,620,870
Unrestricted	-	42,803,111	42,803,111
Total net assets	<u>\$ 16,688,865</u>	<u>\$ 339,258,009</u>	<u>\$ 355,946,874</u>

*See accompanying notes.*

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

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2012**

	<u>Program Revenue</u>		<u>Net (Expenses) Revenue and Changes in Net Assets</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>Functions/Programs</b>						
Governmental activities:						
General government	\$ 6,936,547	\$ -	\$ 6,119,404	\$ (817,143)	\$ -	\$ (817,143)
Housing assistance	28,370,171	-	28,370,171	-	-	-
Housing development	8,680,371	-	63,218	(8,617,153)	-	(8,617,153)
Total governmental activities	<u>43,987,089</u>	<u>-</u>	<u>34,552,793</u>	<u>(9,434,296)</u>	<u>-</u>	<u>(9,434,296)</u>
Business-type activities:						
Administrative	12,172,569	12,211,014	-	-	38,445	38,445
Single Family Mortgage Loan Programs	41,620,519	37,840,955	11,737,226	-	7,957,662	7,957,662
Federal Programs	143,122,046	-	144,817,481	-	1,695,435	1,695,435
Program Fund Programs	356,228	346,062	9,230	-	(936)	(936)
Total business-type activities	<u>197,271,362</u>	<u>50,398,031</u>	<u>156,563,937</u>	<u>-</u>	<u>9,690,606</u>	<u>9,690,606</u>
Total functions/programs	<u>\$ 241,258,451</u>	<u>\$ 50,398,031</u>	<u>\$ 191,116,730</u>	<u>(9,434,296)</u>	<u>9,690,606</u>	<u>256,310</u>
General revenue:						
Documentary stamp taxes				6,149,727	-	6,149,727
Transfers between activities				(400,000)	400,000	-
Total general revenue and transfers				<u>5,749,727</u>	<u>400,000</u>	<u>6,149,727</u>
Change in net assets				(3,684,569)	10,090,606	6,406,037
Net assets, at beginning of year				20,373,434	329,167,403	349,540,837
Net assets, at end of year				<u>\$ 16,688,865</u>	<u>\$ 339,258,009</u>	<u>\$ 355,946,874</u>

See accompanying notes.

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

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2012**

	<b>Housing Trust Fund</b>	<b>SC Help Fund</b>	<b>Total</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 5,658,105	\$ 4,081,267	\$ 9,739,372
Accounts receivable:			
Due from other State agency	1,285,316	-	1,285,316
Loans receivable	348,988	-	348,988
Accrued interest receivable:			
Loans	11,463	-	11,463
Deposits and investments	24	18	42
Total current assets	7,303,896	4,081,285	11,385,181
Noncurrent assets:			
Loans receivable, net of current portion	9,395,569	-	9,395,569
Total noncurrent assets	9,395,569	-	9,395,569
Total assets	\$ 16,699,465	\$ 4,081,285	\$ 20,780,750
<b>Liabilities and Fund Balance</b>			
Current liabilities:			
Due to other funds	\$ -	\$ 386,438	\$ 386,438
Deferred revenue	-	3,001,099	3,001,099
Other liabilities	10,600	693,748	704,348
Total current liabilities	10,600	4,081,285	4,091,885
Commitments and contingencies <i>(Note 15)</i>			
Fund balance:			
Restricted for:			
Housing projects and development	16,688,865	-	16,688,865
Total fund balance	16,688,865	-	16,688,865
Total liabilities and fund balance	\$ 16,699,465	\$ 4,081,285	\$ 20,780,750

*See accompanying notes.*

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

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

**YEAR ENDED JUNE 30, 2012**

	<b>Housing Trust Fund</b>	<b>SC Help Fund</b>	<b>Total</b>
<b>Revenue</b>			
Documentary stamp taxes	\$ 6,149,727	\$ -	\$ 6,149,727
Federal grants	-	34,469,924	34,469,924
Other revenue	-	18,930	18,930
Interest on loans	56,332	-	56,332
Interest on deposits and investments	6,886	721	7,607
Total revenue	6,212,945	34,489,575	40,702,520
<b>Expenditures:</b>			
General government	817,143	6,119,404	6,936,547
Housing assistance	-	28,370,171	28,370,171
Housing development	8,680,371	-	8,680,371
Total expenditures	9,497,514	34,489,575	43,987,089
Deficit of revenue under expenditures	(3,284,569)	-	(3,284,569)
<b>Other Financing Sources (Uses)</b>			
Transfer to other funds	(400,000)	-	(400,000)
Total other financing sources (uses)	(400,000)	-	(400,000)
Net change in fund balance	(3,684,569)	-	(3,684,569)
Fund balance, at beginning of year	20,373,434	-	20,373,434
Fund balance, at end of year	\$ 16,688,865	\$ -	\$ 16,688,865

*See accompanying notes.*

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

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

**JUNE 30, 2012**

	<b>General Operating</b>	<b>Single Family Finance Programs</b>	<b>Program</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 14,335,278	\$ -	\$ 9,756,574	\$ -	\$ 24,091,852
Restricted assets:					
Cash and cash equivalents	6,545,628	81,072,390	-	-	87,618,018
Investments	-	87,480,894	-	-	87,480,894
Loans receivable	2,349,460	18,764,238	-	-	21,113,698
Accrued interest receivable:					
Loans	271,629	5,633,823	-	-	5,905,452
Deposits and investments	42,900	1,079,623	-	-	1,122,523
Accounts receivable:					
Due from grantor	1,507,310	-	-	-	1,507,310
Due from other funds	541,901	1,927,052	22,000	(2,104,515)	386,438
Other	1,183,514	-	-	-	1,183,514
Loans receivable	185,462	-	99,130	-	284,592
Accrued interest receivable:					
Loans	55,550	-	6,777	-	62,327
Deposits and investments	-	-	11,922	-	11,922
Unamortized bond issuance costs	-	445,078	-	-	445,078
Other current assets	587,991	22,339	-	-	610,330
Total current assets	<u>27,606,623</u>	<u>196,425,437</u>	<u>9,896,403</u>	<u>(2,104,515)</u>	<u>231,823,948</u>
Noncurrent assets:					
Loans receivable, net of current portion	7,015,917	-	11,082,659	-	18,098,576
Allowance for doubtful losses	-	-	(438,755)	-	(438,755)
Restricted assets:					
Investments	-	168,827,372	-	-	168,827,372
Loans receivable, net of current portion	70,785,202	615,612,266	-	-	686,397,468
Allowance for doubtful loans	(3,922,515)	(1,717,919)	-	-	(5,640,434)
Unamortized bond issuance costs	-	6,050,374	-	-	6,050,374
Capital assets, net of accumulated depreciation	639,216	-	-	-	639,216
Total noncurrent assets	<u>74,517,820</u>	<u>788,772,093</u>	<u>10,643,904</u>	<u>-</u>	<u>873,933,817</u>
Total assets	<u>102,124,443</u>	<u>985,197,530</u>	<u>20,540,307</u>	<u>(2,104,515)</u>	<u>1,105,757,765</u>

(CONTINUED)

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

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

**JUNE 30, 2012  
(CONTINUED)**

	<b>General Operating</b>	<b>Single Family Finance Programs</b>	<b>Program</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Liabilities</b>					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable	\$ -	\$ 8,532,241	\$ -	\$ -	\$ 8,532,241
Accrued interest payable on bonds	-	17,408,585	-	-	17,408,585
Other liabilities	47,596	-	-	-	47,596
Mortgage escrows	5,224,255	-	-	-	5,224,255
Total liabilities payable from restricted assets	5,271,851	25,940,826	-	-	31,212,677
Accrued compensated absences	499,873	-	-	-	499,873
Accrued salaries and related payroll expenses	765,516	-	-	-	765,516
Due to other funds	103,976	2,000,539	-	(2,104,515)	-
Deferred revenue	232,620	53,000	-	-	285,620
Other liabilities	1,368,022	276,242	2,195	-	1,646,459
Total current liabilities	8,241,858	28,270,607	2,195	(2,104,515)	34,410,145
Noncurrent liabilities:					
Accrued compensated absences, net of current portion	204,668	-	-	-	204,668
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	-	731,830,720	-	-	731,830,720
Other noncurrent liabilities	-	54,223	-	-	54,223
Total noncurrent liabilities	204,668	731,884,943	-	-	732,089,611
Total liabilities	8,446,526	760,155,550	2,195	(2,104,515)	766,499,756
Commitments and contingencies (Note 15)					
<b>Net Assets</b>					
Invested in capital assets	639,216	-	-	-	639,216
Restricted for:					
Debt service	-	32,360,160	-	-	32,360,160
Bond reserves	-	8,523,517	-	-	8,523,517
Housing projects and developments	70,773,702	184,158,303	-	-	254,932,005
Unrestricted	22,264,999	-	20,538,112	-	42,803,111
Total net assets	\$ 93,677,917	\$ 225,041,980	\$ 20,538,112	\$ -	\$ 339,258,009

See accompanying notes.

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

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

**YEAR ENDED JUNE 30, 2012**

	<b>General Operating</b>	<b>Single Family Finance Programs</b>	<b>Program</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Operating Revenue</b>					
Interest and other charges on loans	\$ 1,893,399	\$ 37,840,955	\$ 346,062	\$ -	\$ 40,080,416
Interest on deposits and investments	1,038	11,030,300	9,230	-	11,040,568
Administrative fees and other	12,780,607	706,926	-	(2,464,030)	11,023,503
Total operating revenue	<u>14,675,044</u>	<u>49,578,181</u>	<u>355,292</u>	<u>(2,464,030)</u>	<u>62,144,487</u>
<b>Operating Expenses</b>					
Bond interest	-	35,965,340	-	-	35,965,340
Program services	-	5,900,701	-	(1,595,474)	4,305,227
General and administrative	12,781,711	-	-	(868,556.00)	11,913,155
Bond issuance cost amortization	-	571,134	-	-	571,134
Depreciation of capital assets	259,414	-	-	-	259,414
Other expenses	80,724.00	549,163	148,931.00	-	778,818
Total operating expenses	<u>13,121,849</u>	<u>42,986,338</u>	<u>148,931.00</u>	<u>(2,464,030)</u>	<u>53,793,088</u>
<b>Operating Income</b>	<u>1,553,195</u>	<u>6,591,843</u>	<u>206,361</u>	<u>-</u>	<u>8,351,399</u>
<b>Nonoperating Revenue (Expenses)</b>					
Federal grant and contract revenue	144,817,481	-	-	-	144,817,481
Housing assistance payments and grant awards disbursed	(143,122,046)	-	(356,228)	-	(143,478,274)
Total nonoperating revenue (expenses)	<u>1,695,435</u>	<u>-</u>	<u>(356,228)</u>	<u>-</u>	<u>1,339,207</u>
<b>Income (Loss) Before Transfers</b>	<u>3,248,630</u>	<u>6,591,843</u>	<u>(149,867)</u>	<u>-</u>	<u>9,690,606</u>
<b>Transfers</b>					
Transfers in	400,000	7,406,443	-	(7,406,443)	400,000
Transfers out	(2,887,330)	(4,519,113)	-	7,406,443	-
Total transfers	<u>(2,487,330)</u>	<u>2,887,330</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
Increase (decrease) in net assets	761,300	9,479,173	(149,867)	-	10,090,606
Net assets, at beginning of year	92,916,617	215,562,807	20,687,979	-	329,167,403
Net assets, at end of year	<u>\$ 93,677,917</u>	<u>\$ 225,041,980</u>	<u>\$ 20,538,112</u>	<u>\$ -</u>	<u>\$ 339,258,009</u>

See accompanying notes.

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2012**

	Single Family			Eliminations	Totals
	General Operating	Finance Programs	Program		
<b>Cash Flows From Operating Activities</b>					
Receipt of loan principal payments	\$ 4,155,828	\$83,935,202	\$1,356,096	\$ -	\$ 89,447,126
Receipt of loan interest payments	1,901,967	38,357,326	223,346	-	40,482,639
Purchase/origination of new loans	(6,301,393)	(8,559,570)	(1,256,000)	-	(16,116,963)
Administrative fees and other	12,140,061	16,283	-	(2,464,030)	9,692,314
Payments to employees	(7,581,623)	-	-	-	(7,581,623)
Payments to vendors	(3,445,290)	(6,528,402)	-	2,464,030	(7,509,662)
Net cash flows provided (used) for operating activities	<u>869,550</u>	<u>107,220,839</u>	<u>323,442</u>	<u>-</u>	<u>108,413,831</u>
<b>Cash Flows From Capital and Related Financing Activities</b>					
Purchase of equipment	(18,335)	-	-	-	(18,335)
Net cash flows provided (used) for capital and related financing activities	<u>(18,335)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,335)</u>
<b>Cash Flows From Noncapital Financing Activities</b>					
Transfers from other programs	400,000	7,406,443	-	(7,406,443)	400,000
Transfers to other programs	(2,887,330)	(4,519,113)	-	7,406,443	-
Loans from (to) other programs	911,739	(1,055,330)	(22,000)	-	(165,591)
Receipts from HUD	144,817,481	-	-	-	144,817,481
Payments of housing assistance and grants	(143,122,046)	-	(346,998)	-	(143,469,044)
Proceeds from sale of bonds	-	34,000,000	-	-	34,000,000
Premium received from sale of bonds	-	700,035	-	-	700,035
Principal payments on bonds payable	-	(83,970,000)	-	-	(83,970,000)
Interest payments on bonds payable	-	(37,038,467)	-	-	(37,038,467)
Payment on bond issuance costs	-	(548,069)	-	-	(548,069)
Net cash provided (used) for noncapital financing activities	<u>119,844</u>	<u>(85,024,501)</u>	<u>(368,998)</u>	<u>-</u>	<u>(85,273,655)</u>
<b>Cash Flows From Investing Activities</b>					
Purchase of investments	-	(94,599,477)	-	-	(94,599,477)
Sale of investments	-	4,946,143	-	-	4,946,143
Income on deposits and investments	1,038	10,843,418	-	-	10,844,456
Cash flows from investing activities	<u>1,038</u>	<u>(78,809,916)</u>	<u>-</u>	<u>-</u>	<u>(78,808,878)</u>
Net increase (decrease) in cash and cash equivalents	972,097	(56,613,578)	(45,556)	-	(55,687,037)
Cash and cash equivalents, beginning of year	19,908,809	137,685,968	9,802,130	-	167,396,907
Cash and cash equivalents, end of year	<u>\$ 20,880,906</u>	<u>\$81,072,390</u>	<u>\$9,756,574</u>	<u>\$ -</u>	<u>\$ 111,709,870</u>

(CONTINUED)

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

	<u>General Operating</u>	<u>Single Family Finance Programs</u>	<u>Program</u>	<u>Totals</u>
<b>Reconciliation of Operating Income to Net Cash Flows Provided by (used in) Operating Activities:</b>				
Operating income (loss)	\$ 1,553,195	\$ 6,591,843	\$ 206,361	\$ 8,351,399
Adjustments to reconcile operating income (loss) to net cash flows provided by (used in) operating activities:				
Depreciation	259,414	-	-	259,414
Bond premium amortization	-	(690,643)	-	(690,643)
Bond discount amortization	-	15,126	-	15,126
Deferred loss on refunding amortization	-	210,853	-	210,853
Bond issuance cost amortization	-	571,135	-	571,135
Bonds interest expense reclassified to noncapital financing activities	-	35,965,340	-	35,965,340
Income on deposits and investments reclassified to investing activities	(1,038)	(11,030,301)	(9,230)	(11,040,569)
Receipt of loan principal payments	4,155,828	83,935,202	1,356,096	89,447,126
Purchase/origination of new loans	(6,301,393)	(8,559,570)	(1,256,000)	(16,116,963)
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(229,501)	-	-	(229,501)
(Increase) decrease in prepaid expenses	(49,584)	-	-	(49,584)
Increase (decrease) in accounts payable, accrued expenses and due to grantor	803,683	(304,516)	-	499,167
Increase (decrease) in mortgage escrows	411,094	-	-	411,094
Increase (decrease) in other liabilities	259,283	-	-	259,283
(Increase) decrease in accrued interest receivable loans	8,569	516,370	26,215	551,154
Total adjustments	(683,645)	100,628,996	117,081	100,062,432
Net cash provided by (used in) operating activities	<u>\$ 869,550</u>	<u>\$ 107,220,839</u>	<u>\$ 323,442</u>	<u>\$ 108,413,831</u>

(CONTINUED)

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

**Noncash Noncapital Financing Activities**

- a. Interest payments on bonds do not include \$15,126 amortization of bond discounts and \$210,853 of amortization of deferred losses on refundings of debt that were included in operating expense as bond interest in the Single Family Finance Program Fund.
- b. The Authority recorded an increase in the fair value of investments in the amount of \$1,250,941 for the fiscal year ended June 30, 2012.
- c. The Authority converted \$36,000,000 of escrowed debt to bonds payable for the fiscal year ended June 30, 2012.

	General Operating	Single Family Finance Program	Program	Total
Cash is Reported on the Statement of Net Assets as:				
Cash and cash equivalents	\$ 14,335,278	\$ -	\$ 9,756,574	\$ 24,091,852
Restricted cash and cash equivalents	6,545,628	81,072,390	-	87,618,018
Total Cash and Cash Equivalents	\$ 20,880,906	\$ 81,072,390	\$ 9,756,574	\$ 111,709,870

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

**1. Summary of Significant Accounting Policies**

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

**1.A Reporting Entity**

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

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

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

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

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

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

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the Authority has determined it is not a component of another entity and that the SC Housing Corp is a component of the Authority. The financial statements report the activity of the Authority and the SC Housing Corp. Financial statements of the SC Housing Corp may be obtained from its executive director upon request.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

**1.B Fund Accounting**

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

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

**1.B.1 Governmental Funds**

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

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

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

**1.B.2 Proprietary Funds**

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

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

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

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

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NOTES TO FINANCIAL STATEMENTS

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

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

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

Generally, under the applicable bond indentures, the earnings and receipts of loan payments related to investment and mortgage loan assets in the Single Family Finance Program Fund are required to be used to purchase mortgages or for the related debt service payments. Because these assets are generally restricted for this purpose, they have been reflected as current and noncurrent restricted assets in the accompanying statements of net assets. Net restricted assets 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 2*). Under provisions of applicable debt indentures, net restricted assets not restricted for the respective bond reserves of the Single Family Finance Program are reflected as either restricted for debt service or for special programs in the accompanying statements.

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

Bond discounts and premiums are amortized over the terms of the bonds. Costs incurred in connection with the bond issues are deferred and amortized using the effective interest method over the term of the related issues. The deferred losses on refundings of debt include the call premiums and the unamortized premiums or discounts and issuance costs attributable to the bonds refunded and are amortized over the term of the refunded issues or the new issues whichever is shorter, using the bonds outstanding method. Amortization of bond discounts and the deferred losses on refunding of debt is included in operating expenses as an addition to interest expense. Amortization of bond premium is included in operating revenue as an addition to administrative fees. Amortization of bond issuance costs is included in operating expenses as a separate line item amount.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act (ARRA) of 2009. The purpose of the ARRA is to help combat the current recession, stimulate economic recovery, begin reinvesting in the nation's physical and economic infrastructure, and create and save jobs that will provide long-term economic benefits. The legislation includes funding specifically for Low-Income Housing Tax Credit (LIHTC) developments through the Tax Credit Assistance Program (TCAP). All funds for these programs are advanced to the Authority for disbursement. Reimbursement of administrative expenses is not allowed for either program.

**1.G Cash and Cash Equivalents**

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

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

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

**1.H Investments**

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

**1.I Loans Receivable**

Loans receivable consist of mortgage loans, which are carried at par. Discounts on loans, if any, are deferred and amortized using the sum-of-the-years digit method over the estimated life of ten years for single family loans and are included in interest income. Most mortgage loans in the Single Family Finance Program Fund as well as the single family mortgage loans of approximately

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NOTES TO FINANCIAL STATEMENTS

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

\$15.2 million in the General Operating Fund are insured with various mortgage insurance carriers at specified percentages of the original loan amount varying from 25% to 100%. However, once the loan to property value ratio falls below 80%, borrowers have the right to cancel the mortgage insurance if certain conditions have been met as provided by federal law and/or the insurance carrier. As required by the Homeowners Protection Act, mortgage insurance is automatically cancelled when the original loan to value ratio reaches 79%. In the past the Authority considered the mortgaged property as adequate collateral against significant potential loan losses for such uninsured properties. However, declines in property values have occurred in some areas of South Carolina that may result in losses higher than experienced in the past. The Authority does not anticipate that the increase in losses will place undue stress on the Authority's financial position. Many of the private mortgage insurers continued to experience rating downgrades during the current fiscal year. As a result, since March 2009, the Authority discontinued originating mortgage loans with private mortgage insurance and will not resume such loans until these insurers see significant rating upgrades or until the Authority is in a position to securitize those loans through Ginnie Mae, Fannie Mae and/or Freddie Mac. Most loans made from the Housing Trust Fund and a portion of the loans in the General Operating Fund are not single family mortgage loans and are not insured.

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

**1.J Capital Assets**

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

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NOTES TO FINANCIAL STATEMENTS

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

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

**1.K Mortgage Escrows**

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

**1.L Compensated Absences**

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

**1.M Rebatable Arbitrage**

Arbitrage involves the investment of proceeds from the sale of tax-exempt debt in a taxable investment that yields a higher rate than the rate of the obligation. This results in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year and if they meet specified

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

targets for expenses of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds, notes and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. At June 30, 2012, reported as other liabilities for business-type activities is an arbitrage rebate liability of \$54,223 associated with the Authority's Mortgage Revenue Bonds Outstanding.

**1.N Budget Policy**

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

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

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

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NOTES TO FINANCIAL STATEMENTS

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

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

Net assets or fund balance are presented in the following components or classifications:

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

Unrestricted assets – For business type activities, all assets not meeting the definition of "restricted" or "invested in capital assets" are classified as unrestricted.

Other governmental fund balance classifications – The Authority adopted GASB 54 for the year ended June 30, 2011. GASB 54 establishes a uniform hierarchy based largely on the extent to which a government is required to observe spending constraints governing how it may use amounts reported in the fund balance section of the balance sheet of governmental funds. Under GASB 54, all governmental fund assets of the Authority not meeting the definition of "restricted" are classified as "nonspendable," "committed," "assigned," or "unassigned" as appropriate. The Authority had no such governmental fund balance classifications for the fiscal year ended June 30, 2012.

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

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NOTES TO FINANCIAL STATEMENTS

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

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

**1.Q Use of Estimates**

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

**2. Deposits and Investments**

Financial Statements	Footnotes
Current assets:	Deposits:
Cash and cash equivalents:	Deposits held by State
Unrestricted                     \$   33,831,224	Treasurer                         \$   23,033,165
Restricted                         87,618,018	Other deposits <u>98,416,077</u>
Investments:	Total deposits <u>121,449,242</u>
Restricted                         87,480,894	
Non-current assets:	Investments:
Cash and cash equivalents:	Treasurer                         87,480,894
Restricted                         -	Other investments <u>168,827,372</u>
Investments:	Total investments <u>256,308,266</u>
Restricted <u>168,827,372</u>	
 Total <u>    \$ 377,757,508</u>	 Total <u>    \$ 377,757,508</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 bank. At June 30, 2012, the Authority's bank deposits had a

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

carrying amount of \$98,416,077 and a bank balance of \$97,805,307. \$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 the State funds. The depository institution must correct any deficiencies in collateral within seven days. With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

**2.C Investments**

At June 30, 2012, the Authority's investment balances were as follows:

	<b>Carrying Value</b>	<b>Less Than 1 Year</b>	<b>Greater Than 1 Year</b>
Government National Mortgage Association Insured Mortgage Backed Securities (GNMAs)	\$ 168,827,372	\$ -	\$ 168,827,372
SC State Treasurer Pool	87,480,894	87,480,894	-
<b>Totals</b>	<b>\$ 256,308,266</b>	<b>\$ 87,480,894</b>	<b>\$ 168,827,372</b>

**2.D Investment Risk Factors**

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

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NOTES TO FINANCIAL STATEMENTS

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

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

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

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

For a deposit, the custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits, investments, or collateral securities held by an outside party. As of June 30, 2012, the Authority had \$ 841,837 held by the Trustee as cash, which will be used as part of the debt service payment scheduled for July 1, 2012. The Authority has no policy on custodial credit risk.

**2.D.3 Credit Risk**

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

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

The Authority places no limit on the amount it may invest in any one issuer. More than 5% of the Authority's investments are in the following investments: *GNMAs 51% and State Treasurer Investment Pools 25%.*

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NOTES TO FINANCIAL STATEMENTS

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

**2.E Restricted Deposits and Investments**

Under provisions of applicable debt indentures, the Authority is required to restrict sufficient assets with an independent trustee (The Bank of New York/Mellon) in the Single Family Finance Program Fund in order to meet reserve requirements for payment of debt service on bonds. The required and actual reserve amounts for each program at June 30, 2012 are as follows:

	<u>Reserve Requirements</u>	<u>Actual Funding</u>	<u>Over (Short)</u>
Single Family Mortgage Reserve Funds-1998	\$ 2,640,450	\$ 3,209,250	\$ 568,800
Mortgage Revenue Indenture Reserve Funds	<u>4,336,950</u>	<u>5,314,267</u>	<u>977,317</u>
Totals	<u>\$ 6,977,400</u>	<u>\$ 8,523,517</u>	<u>\$ 1,546,117</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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**3. Loans Receivable**

Loans receivable consist of the following:

**Governmental Funds**

Housing Trust Fund notes maturing on various dates 2014-2048 plus interest ranging from 0.000%-5.500% per annum payable in monthly installments of principal and interest, as provided in the notes. \$ 9,744,557

Total governmental funds \$ 9,744,557

**Proprietary Funds**

General Operating Fund notes maturing on various dates from 2012-2042 plus interest ranging from 0.000%-6.630% per annum, payable in installments of principal and interest as provided in the notes. Reported net of allowance for doubtful accounts of \$3,922,515. \$ 76,413,526

Program Fund notes maturing on various dates from 2014-2031 plus interest ranging from 2.790% - 5.000% per annum; payable in monthly installments of principal and interest as provided in the notes. Reported net of allowance for doubtful accounts of \$438,755. 10,743,034

Single Family Finance Programs notes maturing on various dates from 2013-2042 plus interest ranging from 4.000%-10.750% per annum, payable in monthly installments of principal and interest. Reported net of allowance for doubtful accounts of \$1,717,919 632,658,585

Total proprietary funds \$ 719,815,145

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**4. Capital Assets**

Capital asset activity for the year ended June 30, 2012 was as follows:

	<b>Beginning Balances July 1, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances June 30, 2012</b>
Equipment and furniture	\$ 1,925,806	\$ 18,335	\$ (48,626)	\$ 1,895,515
Accumulated depreciation	(1,045,511)	(259,414)	48,626	(1,256,299)
Capital assets, net of accumulated depreciation	<u>\$ 880,295</u>	<u>\$ (241,079)</u>	<u>\$ -</u>	<u>\$ 639,216</u>

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

Long-term liabilities activity for the year ended June 30, 2012 was as follows:

	<b>Beginning Balances July 1, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balances June 30, 2012</b>	<b>Due within One Year</b>
Bonds payable	\$ 781,750,000	\$ 34,000,000	\$ 83,970,000	\$ 731,780,000	\$ 8,060,000
Unamortized premiums and discounts	9,950,824	700,035	675,517	9,975,342	603,781
Deferred amount on refunding	(1,603,235)	-	(210,854)	(1,392,381)	(131,540)
Total bonds payable	<u>790,097,589</u>	<u>34,700,035</u>	<u>84,434,663</u>	<u>740,362,961</u>	<u>8,532,241</u>
Accrued arbitrage	379,453	7,168	332,398	54,223	-
Accrued compensated absences	<u>707,736</u>	<u>496,676</u>	<u>499,871</u>	<u>704,541</u>	<u>499,873</u>
Totals	<u>\$ 791,184,778</u>	<u>\$ 35,203,879</u>	<u>\$ 85,266,932</u>	<u>\$ 741,121,725</u>	<u>\$ 9,032,114</u>

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**6. Bonds Payable**

At June 30, 2012, bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refunding of debt, consisted of the following:

	Date Issued	Issue Amount	Outstanding Balance
Single Family Mortgage Revenue Bonds 1998 (5.00% to 5.5%) due 2014-2035	09/11/98	\$ 106,975,000	\$ 88,015,000
Plus: Unamortized premium			853,349
			88,868,349
Mortgage Revenue Bonds			
1997A (5.40% to 5.95%) due 2012-2029	06/01/97	30,000,000	5,810,000
1999A (4.70% to 5.40%) due 2012-2031	12/23/98	37,700,000	4,480,000
1999B (5.20% to 8.30%) due 2012-2031	11/01/99	139,910,000	15,685,000
2000A (5.875% to 6.40%) due 2012-2031	06/01/00	121,435,000	12,530,000
2001A (4.60% to 5.50%) due 2012-2033	08/01/01	63,455,000	18,645,000
2002A (3.50% to 4.95%) due 2012-2034	10/16/02	73,000,000	15,750,000
2003A (3.90% to 5.45%) due 2012-2034	09/10/03	50,000,000	20,430,000
2004A (3.80% to 5.50%) due 2012-2035	07/01/04	100,000,000	53,135,000
2005A (3.25% to 5.00%) due 2012-2036	06/15/05	81,720,000	48,740,000
2006A/B (3.75% to 5.75%) due 2012-2037	06/30/06	98,000,000	66,260,000
2006C (3.55% to 5.50%) due 2012-2037	12/19/06	83,540,000	63,420,000
2007A (3.95% to 5.55%) due 2012-2038	09/11/07	83,000,000	65,150,000
2008A (2.85% to 6.00%) due 2012-2039	06/04/08	20,000,000	15,575,000
2008B (3.65% to 6.00%) due 2012-2039	08/28/08	45,215,000	37,865,000
			443,475,000
Plus: Unamortized premium			7,527,295
Less: Unamortized discounts			(126,602)
Unamortized deferred losses on refundings of debt			(1,392,381)
			449,483,312
Homeownership Revenue Bonds			
2010-1 (0.70% to 5.00%) due 2012-2041	07/01/10	100,000,000	90,735,000
2010-2 (1.00% to 5.00%) due 2012-2041	12/09/10	40,000,000	39,555,000
2011-1 (0.60% to 4.50%) due 2013-2041	10/20/11	70,000,000	70,000,000
			200,290,000
Plus: Unamortized premium			1,721,300
			202,011,300
Total bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			\$ 740,362,961

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NOTES TO FINANCIAL STATEMENTS

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**6. Bonds Payable (Continued)**

Amounts, including interest, required to complete payment of the bond obligations as of June 30, 2012 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 8,060,000	\$ 34,842,926	\$ 42,902,926
2014	14,135,000	34,429,031	48,564,031
2015	17,700,000	33,779,243	51,479,243
2016	18,625,000	32,969,857	51,594,857
2017	19,870,000	32,100,904	51,970,904
2018-2022	123,570,000	144,316,744	267,886,744
2023-2027	138,770,000	109,458,029	248,228,029
2028-2032	161,800,000	72,705,305	234,505,305
2033-2037	166,595,000	31,877,331	198,472,331
2038-2042	62,655,000	4,238,421	66,893,421
Total	<u>\$ 731,780,000</u>	<u>\$ 530,717,791</u>	<u>\$ 1,262,497,791</u>

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**6. Bonds Payable (Continued)**

The Authority has the option to redeem most of its bonds prior to maturity on any interest payment date, or on the first of any month, as specified under each bond issue, plus accrued interest to the date of redemption. Below is a listing of the Single Family Finance Program bonds the Authority redeemed prior to their maturity during the year ended June 30, 2012:

Single Family Finance Programs:

Mortgage Revenue Bonds	
Series 1997 A	\$ 2,580,000
Series 1999 A	3,015,000
Series 1999 B	6,115,000
Series 2000 A	6,030,000
Series 2001 A	4,830,000
Series 2002 A	3,240,000
Series 2003 A	3,000,000
Series 2004 A	9,980,000
Series 2005 A	6,090,000
Series 2006 A and B	7,480,000
Series 2006 C	3,965,000
Series 2007 A	5,840,000
Series 2008 A	1,800,000
Series 2008 B	2,370,000
Homeownership Revenue Bonds	
Series 2010-1	7,090,000
Series 2010-2	45,000
Total	<u>\$ 73,470,000</u>

Amortization of bond discounts for the year ended June 30, 2012 that were included in bond interest expense in the Single Family Finance Programs Fund was \$15,126.

Bond premium amortized for the year ended June 30, 2012 and attributable to the Single Family Finance Programs Fund bonds totaled \$690,643 and was reported as other revenue in the fund.

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**6. Bonds Payable (Continued)**

Amortization of deferred losses on refundings of debt of \$210,853 for the year ended June 30, 2012 and attributable to the Single Family Finance Programs Fund bonds was included in bond interest expense in the proprietary fund.

**7. Leases**

At June 30, 2012, the Authority was obligated under various operating leases with external parties for office space and office equipment having noncancelable lease terms in excess of one year.

The lease for the Authority's office space expires in October 2016 and is payable monthly. The Authority is responsible for the pro rata share of increases in the building's operating costs over the preceding rental year. However, the increase in a given year may not exceed 3.1%.

Office equipment leases expire in various fiscal years from 2013 through 2015.

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>	
2013	\$ 336,658
2014	336,054
2015	343,103
2016	350,323
2017	<u>117,600</u>
Total leases with external entities	<u><u>\$ 1,483,738</u></u>

The Authority incurred rental expense of approximately \$380,000 under the aforementioned leases for the fiscal year ended June 30, 2012.

The Authority also leases motor vehicles from the State Budget and Control Board which can be cancelled with 30 days notice. Under this lease agreement, the Authority incurred expenses of \$158,089 in fiscal year 2012.

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NOTES TO FINANCIAL STATEMENTS

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**7. Leases (Continued)**

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

**8. Transactions with State Entities**

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

- The South Carolina Department of Revenue collects documentary stamp taxes and remits \$.20 of every \$1.30 collected to the Authority for the Housing Trust Fund.
- Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking and investment functions from the State Treasurer; and legal services from the Attorney General.
- Services provided at no cost from various divisions of the State Budget and Control Board include retirement plan administration, grant services, insurance plan administration, personnel management, review, and approval of certain budget amendments, procurement services, and other centralized functions. The Authority paid \$112,597 through the Statewide Cost Allocation Plan during the fiscal year.
- Financial transactions include payments to divisions of the State Budget and Control Board for vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Payments were also made for the workers' compensation insurance coverage and unemployment compensation. The amounts for such items applicable to fiscal year 2012 expenditures were not readily available.

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NOTES TO FINANCIAL STATEMENTS

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**9. Fund Transfers**

Fund transfers to and from other funds, which are legally allowable and in accordance with the terms of the respective bond indentures, as applicable, during the year ended June 30, 2012 are as follows:

- \$2,887,330 from the General Operating Fund to the Homeownership Bond segment to fund cost of issuance and capitalized interest for bonds.
- \$400,000 from the Housing Trust Fund to the General Operating Fund to fund administrative and operational expenses.

**10. Risk Management**

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS

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**10. Risk Management (Continued)**

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

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

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

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

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

**11. Conduit Debt**

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

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NOTES TO FINANCIAL STATEMENTS

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**11. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 1989 (88/89)</b>			
07/88	Multifamily Housing Revenue Bonds (Paces Landing Series 1988)	\$ 8,750,000	\$ 8,750,000
<b>Fiscal Year 2000 (99/00)</b>			
07/99	Multifamily Housing Revenue Bonds (CTS Rock Hill Project)	9,145,000	9,145,000
<b>Fiscal Year 2001 (00/01)</b>			
12/00	Multifamily Rental Housing Revenue Bonds (Bent Tree Apts./Richland Oxford)	11,130,000	7,650,000
06/01	Multifamily Housing Revenue Bonds (Fairway Apts. Project)	7,735,000	7,735,000
06/01	Multifamily Rental Housing Revenue Refunding Bonds (Martin's Creek Project)	7,300,000	7,300,000
<b>Fiscal Year 2003 (02/03)</b>			
11/02	Multifamily Guaranteed Mortgage Revenue Bonds (CTS Parklane)	12,050,000	12,050,000
12/02	Multifamily Rental Housing Revenue Bonds (Spring Grove Apartments Project)	7,410,000	6,675,000
<b>Fiscal Year 2004 (03/04)</b>			
04/04	Multifamily Rental Housing Revenue Bonds (Beverly Apartments Project)	3,010,000	2,815,000
04/04	Multifamily Rental Housing Revenue Bonds (Hillandale Apartments Project)	6,660,000	5,700,000
06/04	Multifamily Rental Housing Revenue Bonds (Greenville Arms Apartments Project)	4,265,000	3,950,000
06/04	Multifamily Rental Housing Revenue Bonds (Canebreak Apartments Project)	4,500,000	4,145,455

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NOTES TO FINANCIAL STATEMENTS

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**11. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 2005 (04/05)</b>			
07/04	Multifamily Rental Housing Revenue Bonds (Bayside Apartments Project)	\$ 17,250,000	\$ 17,250,000
12/04	Multifamily Rental Housing Revenue Bonds (Wyndham Pointe Apartments Project)	9,400,000	6,876,030
12/04	Multifamily Rental Housing Revenue Bonds (Planters Retreat Apartments Project)	11,850,000	10,640,319
05/05	Multifamily Rental Housing Revenue Bonds (Wenmont Apartments Project)	6,210,000	5,941,423
<b>Fiscal Year 2006 (05/06)</b>			
09/05	Multifamily Rental Housing Revenue Bonds (Hallmark Homes Apartments Project)	12,840,000	12,840,000
09/05	Multifamily Rental Housing Revenue Bonds (Appian Way Apartments Project)	11,500,000	10,000,000
09/05	Multifamily Rental Housing Revenue Bonds (Cross Creek Apartments Project)	8,850,000	8,602,062
11/05	Multifamily Rental Housing Revenue Bonds (Runaway Bay Project)	8,365,000	8,365,000
01/06	Multifamily Rental Housing Revenue Bonds (Rocky Creek Apartments Project)	12,745,000	12,400,000
04/06	Multifamily Rental Housing Revenue Bonds (Towers East Apartments Project)	11,500,000	11,035,000
06/06	Multifamily Rental Housing Revenue Bonds (Spanish Trace Apartments Project)	3,685,000	3,535,000
<b>Fiscal Year 2008 (07/08)</b>			
01/08	Multifamily Rental Housing Revenue Bonds (Bridle Ridge Apartments)	7,885,000	7,765,000
<b>Fiscal Year 2009 (08/09)</b>			
11/08	Multifamily Rental Housing Revenue Bonds (Franklin Square Apartments)	9,800,000	9,800,000
12/08	Multifamily Rental Housing Revenue Bonds (Brookside Crossing)	9,900,000	9,380,000

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NOTES TO FINANCIAL STATEMENTS

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**11. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 2011 (10/11)</b>			
5/11	Multifamily Rental Housing Revenue Bonds (North Augusta Gardens Apartments)	\$ 4,975,000	\$ 4,975,000
	Multifamily Rental Housing Revenue Bonds (Pickens Gardens Apartments)	<u>1,275,000</u>	<u>1,230,000</u>
Total		<u>\$ 229,985,000</u>	<u>\$ 216,550,289</u>

**12. Pension Plan**

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR), which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

All full time equivalent (FTE) employees of the Authority are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. All FTE state employees are required to participate in and contribute to a SCRS plan as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits, as well as, disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82% of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years of service and qualify for a survivor's benefit upon completion of

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NOTES TO FINANCIAL STATEMENTS

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**12. Pension Plan (Continued)**

15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. (This requirement does not apply if the disability is a result of a job related injury.) A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a maximum of sixty consecutive months. Upon termination of employment, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. As of July 1, 2005, all TERI participants are required to continue making SCRS contributions and may receive only one annual leave payout (a maximum of 45 days). TERI participants do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Beginning July 1, 2006, employees participating in the SCRS have been required to contribute 6.50 percent of all compensation. For the year ended June 30, 2012, the employer contribution rate was 10.45 percent (before a surcharge to fund retiree health and dental insurance coverage). The Authority's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2012, 2011, and 2010 were approximately \$590,000, \$592,000, and \$523,000, respectively, and equaled the required contributions (excluding the surcharge) for each year. Also, the Authority paid employer group life insurance contributions of approximately \$10,000 for the current fiscal year at the rate of .15% of compensation.

The amounts paid by the Authority for pension and group-life benefits are reported as employer contribution expenses within the operating expense category and are included in general and administrative expenses of the General Operating Fund.

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NOTES TO FINANCIAL STATEMENTS

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**12. Pension Plan (Continued)**

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation including any annual leave payout).

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Authority's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Authority's liability under the pension plans is limited to the amounts appropriated in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Authority recognizes no contingent liability for unfunded costs associated with participation in the plans. At retirement, employees participating in the SCRS may receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

**13. Post Employment and Other Employee Benefits**

*Post Employment Benefits*

The State provides post employment health and dental benefits to retired employees and their covered dependents through a plan which has been determined to be a cost-sharing multiple-employer defined benefit post employment healthcare plan by the Comptroller General's Office of the State of South Carolina. The State Budget and Control Board (SBCB) is the Trustee and the plan is administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board. A retiree's eligibility for the health and dental benefits is based on his hire date and years of earned retirement service credit. Generally, ten years of service credit with the SC Retirement System is required for full funding of employees enrolled in the system prior to May 2, 2008. For all

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**13. Post Employment and Other Employee Benefits (Continued)**

others who may become enrolled, eligibility requires fifteen years of service for partial funding and twenty-five years for full funding.

In addition the State provides long-term disability benefits to active employees through the Long-Term Disability Plan which has been determined to be a cost sharing multiple-employer plan by the Comptroller General's Office of the State of South Carolina. The State Budget and Control Board is the Trustee and the plan is administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Benefits under this plan are provided to the employee upon approval of the disability by the South Carolina Retirement System.

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires the post employment benefits be funded through annually established employer's contribution rates, also known as the pension surcharge. Funding for the employer's payment of the surcharge is provided through General Appropriations from the State and other sources. Effective May 1, 2008 through Act 195, the State established the South Carolina Retiree Health Insurance Trust Fund and the Long-Term Disability Insurance Trust Fund for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and employee long-term disability benefits. The Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding may include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Authority's actual contribution to this trust fund for the fiscal year ended June 30, 2012 was approximately \$240,000 and the required contribution rate was 4.55%. The Long-Term Disability Insurance Trust Fund is funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee contributed to the trust was \$3.23 for the fiscal year ended June 30, 2012.

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NOTES TO FINANCIAL STATEMENTS

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**13. Post Employment and Other Employee Benefits (Continued)**

By state law, the State is liable for the employer share of retiree premiums. Accordingly, an annual required contribution and related liability for the Authority, as employer, is not included in the accompanying financial statements.

Audited financial statements of the trust funds may be obtained by written request to Employee Insurance Program, SC Budget and Control Board, 1201 Main Street, Suite 360, Columbia, South Carolina 29201.

*Other Employee Benefits*

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to all permanent full-time and certain permanent part-time employees of the Authority. These benefits are provided on a reimbursement basis by the employer agency based on rates established at the beginning of the service period by the Employee Insurance Program within the SC Budget and Control Board.

The Authority recorded benefit expenses for these insurance benefits for active employees of approximately \$539,000 for the year ended June 30, 2012.

**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, 2012.

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**15. Commitments and Contingencies**

*Financial Award Commitments*

As of June 30, 2012, the Authority has financial award commitments outstanding totaling approximately \$4,500,000 under the Housing Trust Fund programs and \$120,000 for special initiatives under the Program Fund.

The Authority receives significant federal grant and entitlement revenues. Compliance audits of federal programs may identify disallowed expenditures. Disallowances by federal program officials as a result of these audits may become liabilities of the Authority. The Authority records a liability for pending disallowances if settlement is probable and the settlement amount is reasonably estimable. Otherwise, the liability is recorded only when the Authority and the federal government agree on reimbursement terms. Based on an analysis of historical data, the Authority believes that any such disallowances relating to the fiscal year ended June 30, 2012, or earlier years will not have a material impact on the Authority's financial statements.

*Financial Crisis and Potential Impacts*

The United States continues to suffer from the financial crisis and resultant significant events beginning the last quarter of 2008. The crisis has resulted in the closure of financial institutions, bankruptcies, forced mergers and federal takeovers. Over the last year the Authority's foreclosures increased but remained well below state and national levels. We continue to mitigate loan losses by requiring adequate collateral and the use of mortgage insurance and mortgage guarantees.

**16. Subsequent Events**

The Authority has evaluated subsequent events through October 17, 2012, which is the date the financial statements were available to be issued.

On September 26, 2012 the Authority closed on \$65,710,000 in Mortgage Revenue Bonds. The bond proceeds were used to call all of the outstanding Bonds from Series 1997A, 1999A, 1999B, 2000A, 2001A and 2002A on September 27, 2012. As a result of the "Refunding", the Authority will realize a net cost savings of \$5 to 6 million.

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**16. Subsequent Events (Continued)**

The South Carolina Public Employee Benefit Authority (PEBA) was established in July 2012. The PEBA is a combination of the South Carolina Retirement System, the South Carolina Employee Insurance Program and the South Carolina Deferred Compensation Commission. A number of program changes were made, however, none of the changes created additional liabilities for the Authority as of June 30, 2012.

**17. Segment Financial Information**

Segment financial information as required by the bond trustees for each indenture of the Authority's Single Family Finance Programs as of and for the year ended June 30, 2012, is presented on the following pages.

**Statement of Net Assets - June 30, 2012**

	<u>Single Family</u>	<u>Mortgage Revenue</u>	<u>Homeownership Bond</u>	<u>Revenue Reserve</u>	<u>Totals</u>
<b>Assets</b>					
Current assets:					
Restricted assets:					
Cash and cash equivalents	\$ 3,544,701	\$ 38,574,049	\$ 36,847,241	\$ 2,106,399	\$ 81,072,390
Investments	41,244,474	10,306,391	-	35,930,029	87,480,894
Loans receivable	3,221,712	15,057,621	-	484,905	18,764,238
Accrued interest receivable:					
Loans	881,835	4,720,800	-	31,188	5,633,823
Deposits and investments	150,471	193,377	602,912	132,863	1,079,623
Due from other funds	1,915,050	-	-	12,002	1,927,052
Unamortized bond issuance costs	37,977	293,837	113,264	-	445,078
Other current assets	2,301	11,780	8,258	-	22,339
Total current assets	<u>50,998,521</u>	<u>69,157,855</u>	<u>37,571,675</u>	<u>38,697,386</u>	<u>196,425,437</u>
Non-current assets:					
Restricted assets:					
Investments	-	-	168,827,372	-	168,827,372
Loans receivable	147,411,760	463,579,024	-	4,621,482	615,612,266
Allowance for uncollectible	(353,925)	(1,363,994)	-	-	(1,717,919)
Unamortized bond issuance costs	562,895	4,054,595	1,432,884	-	6,050,374
Total noncurrent assets	<u>147,620,730</u>	<u>466,269,625</u>	<u>170,260,256</u>	<u>4,621,482</u>	<u>788,772,093</u>
Total assets	<u>198,619,251</u>	<u>535,427,480</u>	<u>207,831,931</u>	<u>43,318,868</u>	<u>985,197,530</u>

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NOTES TO FINANCIAL STATEMENTS

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

<b>Statement of Net Assets - June 30, 2012</b>					
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	<b>Totals</b>
<b>Liabilities</b>					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable	\$ 53,935	\$ 5,303,263	\$ 3,175,043	\$ -	\$ 8,532,241
Accrued interest payable on bonds	2,309,025	11,598,604	3,500,956	-	17,408,585
Total liabilities payable from restricted assets	2,362,960	16,901,867	6,675,999	-	25,940,826
Due to other funds	-	1,915,051	-	85,488	2,000,539
Deferred revenue	-	-	-	53,000	53,000
Other liabilities	40,402	189,541	-	46,299	276,242
Total current liabilities	2,403,362	19,006,459	6,675,999	184,787	28,270,607
Non-current liabilities:					
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings					
	88,814,414	444,180,049	198,836,257	-	731,830,720
Other noncurrent liabilities	-	54,223	-	-	54,223
Total noncurrent liabilities	88,814,414	444,234,272	198,836,257	-	731,884,943
Total Liabilities	91,217,776	463,240,731	205,512,256	184,787	760,155,550
<b>Net Assets</b>					
Restricted for:					
Debt service	2,309,025	30,051,135	-	-	32,360,160
Bond reserves	3,209,250	5,314,267	-	-	8,523,517
Special programs	101,883,200	36,821,347	2,319,675	43,134,081	184,158,303
Total net assets	\$ 107,401,475	\$ 72,186,749	\$ 2,319,675	\$ 43,134,081	\$ 225,041,980

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Statement of Revenue, Expenses, and Changes in Net Assets - Year Ended June 30, 2012**

	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve	Totals
<b>Operating revenue</b>					
Interest and other charges on loans	\$ 6,952,262	\$ 30,494,122	\$ -	\$ 394,571	\$ 37,840,955
Income on deposits and investments	1,066,250	1,204,187	6,816,492	1,943,371	11,030,300
Administrative fees and other	51,839	514,139	124,665	16,283	706,926
Total operating revenue	<u>8,070,351</u>	<u>32,212,448</u>	<u>6,941,157</u>	<u>2,354,225</u>	<u>49,578,181</u>
<b>Operating expenses</b>					
Bond interest	4,618,050	24,967,784	6,379,506	-	35,965,340
Program services	855,802	4,726,078	43,267	275,554	5,900,701
Bond issuance cost amortization	36,501	367,287	167,346	-	571,134
Other expenses	(2,563)	361,344	-	190,382	549,163
Total operating expenses	<u>5,507,790</u>	<u>30,422,493</u>	<u>6,590,119</u>	<u>465,936</u>	<u>42,986,338</u>
<b>Operating income (loss)</b>	<u>2,562,561</u>	<u>1,789,955</u>	<u>351,038</u>	<u>1,888,289</u>	<u>6,591,843</u>
<b>Transfers</b>					
Transfers in	2,221,187	402,283	2,888,331	1,894,642	7,406,443
Transfers out	(352,283)	(2,277,625)	(1,838,204)	(51,001)	(4,519,113)
Total transfers	<u>1,868,904</u>	<u>(1,875,342)</u>	<u>1,050,127</u>	<u>1,843,641</u>	<u>2,887,330</u>
Increase (decrease) in net assets	4,431,465	(85,387)	1,401,165	3,731,930	9,479,173
Net assets, at beginning of year	102,970,010	72,272,136	918,510	39,402,151	215,562,807
Net assets, at end of year	<u>\$ 107,401,475</u>	<u>\$ 72,186,749</u>	<u>\$ 2,319,675</u>	<u>\$ 43,134,081</u>	<u>\$ 225,041,980</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

<b>Statement of Cash Flows - Year Ended June 30, 2012</b>					
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	<b>Totals</b>
<b>Cash Flows From Operating Activities</b>					
Receipt of loan principal payments	\$ 15,180,491	\$ 57,750,340	\$ -	\$ 11,004,371	\$ 83,935,202
Receipt of loan interest payments	6,993,138	30,958,290	-	405,898	38,357,326
Purchase/origination of new loans	(271,709)	-	-	(8,287,861)	(8,559,570)
Other Receipts	-	-	-	16,283	16,283
Payments to vendors	(853,823)	(5,187,320)	(43,268)	(443,991)	(6,528,402)
Net cash flows provided by (used in) operating activities	<u>21,048,097</u>	<u>83,521,310</u>	<u>(43,268)</u>	<u>2,694,700</u>	<u>107,220,839</u>
<b>Cash Flows From Noncapital Financing Activities</b>					
Transfers from other programs	2,221,187	402,283	2,888,331	1,894,642	7,406,443
Transfers to other programs	(352,283)	(2,277,625)	(1,838,204)	(51,001)	(4,519,113)
Loans from other programs	(1,915,051)	1,815,051	(1,077,330)	122,000	(1,055,330)
Proceeds from sale of bonds	-	-	34,000,000	-	34,000,000
Premium received from sale of bonds	-	-	700,035	-	700,035
Principal payments on bonds payable	-	(74,640,000)	(9,330,000)	-	(83,970,000)
Interest payments on bonds payable	(4,618,050)	(26,992,864)	(5,427,553)	-	(37,038,467)
Payment on bond issuance costs	-	-	(548,069)	-	(548,069)
Net cash flows provided by (used in) noncapital financing activities	<u>(4,664,197)</u>	<u>(101,693,155)</u>	<u>19,367,210</u>	<u>1,965,641</u>	<u>(85,024,501)</u>
<b>Cash Flows From Investing Activities</b>					
Purchase of investments	(16,724,344)	-	(41,945,104)	(35,930,029)	(94,599,477)
Sale of investments	-	4,946,143	-	-	4,946,143
Income on deposits and investments	994,740	1,345,558	6,692,613	1,810,507	10,843,418
Net cash flows provided by (used in) investing activities	<u>(15,729,604)</u>	<u>6,291,701</u>	<u>(35,252,491)</u>	<u>(34,119,522)</u>	<u>(78,809,916)</u>
Net increase (decrease) in cash and cash equivalents	654,296	(11,880,144)	(15,928,549)	(29,459,181)	(56,613,578)
Cash and cash equivalents, beginning of year	2,890,405	50,454,193	52,775,790	31,565,580	137,685,968
Cash and cash equivalents, end of year	<u>\$ 3,544,701</u>	<u>\$ 38,574,049</u>	<u>\$ 36,847,241</u>	<u>\$ 2,106,399</u>	<u>\$ 81,072,390</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

	<b>Cash Flows - Year Ended June 30, 2012</b>				
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	<b>Totals</b>
<b>Reconciliation of Operating Income</b>					
<b>(Loss) to Cash Flows Provided</b>					
<b>by (Used in) Operating Activities:</b>					
Operating income (loss)	\$ 2,562,561	\$ 1,789,955	\$ 351,038	\$ 1,888,289	\$ 6,591,843
Adjustments to reconcile operating					
income (loss) to cash flows provided by (used					
in) operating activities:					
Bond premium amortization	(51,839)	(514,139)	(124,665)	-	(690,643)
Bond discount amortization	-	15,126	-	-	15,126
Bond deferred loss on refunding amortization	-	210,853	-	-	210,853
Bond issuance cost amortization	36,502	367,287	167,346	-	571,135
Bonds interest expense reclassified					
to non-capital financing activities	4,618,050	24,967,784	6,379,506	-	35,965,340
Income on deposits and					
investments reclassified to					
investing activities	(1,066,250)	(1,204,188)	(6,816,493)	(1,943,370)	(11,030,301)
Receipt of loan principal payments	15,180,491	57,750,340	-	11,004,371	83,935,202
Purchase/origination of new loans	(271,709)	-	-	(8,287,861)	(8,559,570)
Change in assets and liabilities:					
(Increase) decrease in accrued					
interest receivable-loans	40,875	464,169	-	11,326	516,370
Increase (decrease) in accounts					
payable, accrued expenses and					
due to grantor	(584)	(325,877)	-	21,945	(304,516)
Total adjustments	18,485,536	81,731,355	(394,306)	806,411	100,628,996
Net cash provided by (used in) operating					
activities	\$ 21,048,097	\$ 83,521,310	\$ (43,268)	\$ 2,694,700	\$ 107,220,839

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2012**

<u>Year Ended June 30, 2012 Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Total Awards/ Expenditures</u>	<u>Awards/ Expenditures to Subrecipients</u>
<b>Department of Housing and Urban Development</b>			
Housing Assistance Payments Program-Special allocations	14.195	\$ 116,218,627	\$ 5,662,716
*HOME Investment Partnership Program	14.239	16,938,042	386,283
HERA Neighborhood Stabilization Program	14.228	6,476,379	1,222,796
Section 8 - Housing Choice Vouchers Program	14.871	<u>12,541,505</u>	<u>477,293</u>
Total Direct - Department of Housing and Urban Development		<u>\$ 152,174,553</u>	<u>\$ 7,749,088</u>

\* Total Expenditures for the HOME Investment Partnership Program include \$7,109,249 of disbursements that have been recorded as Loans Receivable in the Statement of Net Assets and not included as Nonoperating Expenses - Housing assistance payments and grant awards disbursed.

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

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

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

**YEAR ENDED JUNE 30, 2012**

**Accounting Principles**

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

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

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

We have audited the financial statements of the governmental activities, business-type activities, and each major fund of the South Carolina State Housing Finance and Development Authority (the “Authority”), an agency of the State of South Carolina, as of and for the year ended June 30, 2012, which collectively comprise the South Carolina State Housing Finance and Development Authority’s basic financial statements and have issued our report thereon dated October 17, 2012. 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.

Internal Control Over Financial Reporting

Management of South Carolina State Housing Finance and Development Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered South Carolina State Housing Finance and Development Authority’s internal control as a basis for designing our auditing procedures 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 South Carolina State Housing Finance and Development Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Carolina State Housing Finance and Development Authority’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Mr. Richard H. Gilbert, Jr. CPA  
Interim State Auditor  
Office of the State Auditor  
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Carolina State Housing Finance and Development Authority's financial statements are free of 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*.

This report is intended solely for the information and use of the Members of the South Carolina State Housing Finance and Development Authority's Board of Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than these specified parties.

*Webster Regus LLP*

Columbia, South Carolina  
October 17, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited South Carolina State Housing Finance and Development Authority's (the "Authority") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB), Circular A-133 *Compliance Supplement*, that could have a direct and material effect on each of the South Carolina State Housing Finance and Development Authority's major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of South Carolina State Housing Finance and Development Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered South Carolina State Housing Finance and Development Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal

Mr. Richard H. Gilbert, Jr. CPA  
Interim State Auditor  
Office of the State Auditor  
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program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Carolina State Housing Finance and Development 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Members of the Board of Commissioners, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Webster Rogers LLP*

Columbia, South Carolina  
October 17, 2012

**South Carolina State Housing Finance and Development Authority**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2012**

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**Summary of Auditors' Results**

1. The type of report issued on the basic financial statements: **Unqualified opinion**
2. Significant deficiencies in internal control were disclosed by the audit of the basic financial statements: **None reported**  
Material weaknesses: **None.**
3. Noncompliance which is material to the basic financial statements: **None reported**
4. Significant deficiencies in internal control over major programs: **None reported**  
Material weaknesses: **None.**
5. The type of report issued on compliance for major programs: **Unqualified opinion.**
6. Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **No**
7. Major federal program: Section 8 Housing Assistance Payments Program - CFDA Number 14.195.
8. The threshold used for distinguishing between Type A and Type B programs: **\$3,000,000.**
9. Auditee qualified as a low risk auditee under Section 0.530 of OMB Circular A-133: **Yes**

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

There were no findings related to the financial statements for the year ended June 30, 2012.

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

There were no findings related to federal awards for the year ended June 30, 2012.