

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

COLUMBIA, SOUTH CAROLINA

**AUDITED FINANCIAL STATEMENTS AND OTHER
FINANCIAL INFORMATION**

YEAR ENDED JUNE 30, 2011

State of South Carolina



Office of the State Auditor

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October 26, 2011

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, 2011, 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/cwc

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**AUDITED FINANCIAL STATEMENTS AND OTHER
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Independent Auditors' Report

Mr. Richard H. Gilbert, Jr. CPA
Deputy 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, 2011, 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 the 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, results of operations, and 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, 2011 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 in paragraph one 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, 2011, and the respective changes in financial position and, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Mr. Richard H. Gilbert, Jr. CPA
Deputy 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 14, 2011, 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.

The management's discussion and analysis, listed in the accompanying table of contents, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Columbia, South Carolina
October 14, 2011

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, 2011.

Financial Highlights

- Net assets of the Authority's proprietary funds increased \$13,270,931 to \$329,167,403. This increase is primarily attributable to the increase in the Authority's single family mortgage portfolio.
- The governmental fund net assets decreased \$2,662,668 to \$20,373,434. This decrease is primarily the result of a decrease in documentary stamp taxes received of \$486,089 during the fiscal year as well as the continued disbursement of award amounts approved in previous fiscal years.
- Federal grant revenue increased \$36,426,387 to \$221,220,299. All federal assistance received by the Authority during the current fiscal year was from the Department of Housing and Urban Development (HUD). The increase in Federal assistance is due to an increase in activity in the Tax Credit Assistance Program (TCAP). TCAP was 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 \$86,090,000 during the fiscal year, of that total \$74,110,000 were redeemed prior to their maturity. The Authority issued \$140,000,000 in bonds under the New Issue Bond Program. 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 two NIBP transactions involved the release and conversion of \$84,000,000 in escrowed treasury bonds in conjunction with the issuance of \$56,000,000 in market rate bonds.
- For the fiscal year ending June 30, 2011, the Authority purchased \$156,337,679 of single family first mortgages, down payment assistance loans, and multifamily mortgages in its proprietary funds. The demand for single family mortgage loans declined in large part to the downturn in the economy that carried over from the previous fiscal year as well as many other factors affecting the financial and housing markets.
- Bonds Outstanding net of unamortized premiums and discounts and deferred losses on refundings decreased \$29,286,993 to \$790,097,589.
- The Authority established the South Carolina Housing Corporation in Fiscal Year 2011 in order to administer the U.S. Department of Treasury's Hardest Hit Fund monies awarded to the state. South Carolina received awards totaling \$295,431,200 to help homeowners avoid foreclosure. The Authority administers the program through the Sought Carolina Homeownership Employment Lending Program (SC HELP) and provides monthly payment assistance, direct loan assistance, and transition assistance to distressed borrowers.

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 are special revenue funds.
- 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 and federal grants finance the Authority's governmental functions including the disbursement of restricted monies. 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 Authority's Housing Trust Fund is a special revenue fund. The SC Housing Corp, which administers SC HELP, is a not for profit blended component unit.

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.”

SC HELP is intended to assist responsible borrowers, those borrowers who are facing possible foreclosure due to circumstances beyond their control, i.e. unemployment, underemployment or significant reduction in self-employment income. For some programs, death of a spouse, catastrophic medical expenses, and/or divorce may be considered. SC HELP is not intended to serve borrowers who are facing foreclosure due to poor credit and/or debt management, stripping

the equity from their home for non-essential purposes, or overall mismanagement of their personal budget.

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 both the fund and entity-wide statements.

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 \$15,184,205. The following table summarizes the financial position for the Authority as of and for the years ended June 30, 2011 and 2010.

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Total current assets	\$ 15,143,951	\$ 11,533,020	\$ 240,889,774	\$ 135,198,579	\$ 256,033,835	\$ 146,731,599
Capital assets	-	-	880,295	882,583	880,295	882,583
Non-current assets	10,270,606	11,503,082	903,521,114	1,024,857,225	913,791,720	1,036,360,307
Total assets	<u>\$ 25,414,557</u>	<u>\$ 23,036,102</u>	<u>\$ 1,145,291,183</u>	<u>\$ 1,160,938,387</u>	<u>\$ 1,170,705,850</u>	<u>\$ 1,183,974,489</u>
Total current liabilities	\$ 5,041,123	\$ -	\$ 50,867,748	\$ 68,994,596	\$ 55,908,871	\$ 68,994,596
Total long-term liabilities	-	-	765,256,142	776,047,319	765,256,142	776,047,319
Total liabilities	<u>\$ 5,041,123</u>	<u>\$ -</u>	<u>\$ 816,123,890</u>	<u>\$ 845,041,915</u>	<u>\$ 821,165,013</u>	<u>\$ 845,041,915</u>
Net assets in capital assets	\$ -	\$ -	\$ 880,295	\$ 882,583	\$ 880,295	\$ 882,583
Net assets-restricted	20,373,434	23,036,102	283,969,803	270,566,520	304,343,237	293,602,622
Net assets-unrestricted	-	-	44,317,305	44,447,369	44,317,305	44,447,369
Total net assets	<u>\$ 20,373,434</u>	<u>\$ 23,036,102</u>	<u>\$ 329,167,403</u>	<u>\$ 315,896,472</u>	<u>\$ 349,540,837</u>	<u>\$ 338,932,574</u>

Net assets of the Authority's governmental funds decreased \$2,662,668 to \$20,373,474 as a result of the payment of Housing Trust Fund grants awarded in the previous year. 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 \$13,270,931 to \$329,167,403. This increase is primarily attributable to the increase in the Authority's single family mortgage 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 the South Carolina Homeownership Employment Lending Program 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.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenue:						
Charges for Service	\$ -	\$ -	\$ 57,144,659	\$ 57,450,915	\$ 57,144,659	\$ 57,450,915
Program Investment, Grant, Federal, and Other Income	2,756,372	235,441	229,080,586	188,540,141	231,836,958	188,775,582
Total Revenue	<u>2,756,372</u>	<u>235,441</u>	<u>286,225,245</u>	<u>245,991,056</u>	<u>288,981,617</u>	<u>246,226,497</u>
Expenses	10,743,595	9,307,969	273,354,314	238,218,911	284,097,909	247,526,880
Document Stamp Tax	5,724,555	6,210,644	-	-	5,724,555	6,210,644
Transfers between Funds	(400,000)	(400,000)	400,000	400,000	-	-
Increase (decrease) in Net Assets	<u>\$ (2,662,668)</u>	<u>\$ (3,261,884)</u>	<u>\$ 13,270,931</u>	<u>\$ 8,172,145</u>	<u>\$ 10,608,263</u>	<u>\$ 4,910,261</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. Expenditures were disbursement of grant awards and operating expenses.

Revenues of the Authority’s business-type activities were primarily from federal program revenue (\$221,220,299), charges for services (\$57,144,659), and program investment and other income (\$7,860,286). 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 \$13,270,931 for the business-type activities. Net assets of the Authority increased from the previous year by \$10,608,263.

Debt Administration

The Authority's total liabilities decreased \$23,876,902 to \$821,165,013. Long-term liabilities decreased \$10,791,177 to \$765,256,142. The Authority issued bonds under the New Issue Bond Program (NIBP) in the amounts of \$40,000,000 and \$16,000,000 in connection with the release of bonds purchased by the U.S. Department of Treasury and held in escrow in the amounts of \$60,000,000 and \$24,000,000. Under the NIBP, Treasury agreed to purchase long-term maturities at a minimum ratio of 60% Treasury and 40% market issuance in order to reduce Authority debt yields to competitive levels. Long-term debt consists of bonds payable at \$764,583,599, other non-current liabilities of \$379,453, and accrued compensated absences in the amount of \$293,090.

Economic Factors

The Authority's financial condition remained strong at June 30, 2011. The national economy has shown some improvement. The continued economic downturn has caused 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 housing "bubble" unsettled the Mortgage Revenue Bond market. As a result, the U.S. Treasury instituted the New Issue Bond Program (NIBP). NIBP provides a lower than market rate for up to 60% of the mortgage revenue bonds issued. South Carolina was allocated \$200,000,000 in total bond authority. The Authority established the Homeownership Revenue Bond Program to issue bonds under NIBP. NIBP requires that loans be securitized through Fannie Mae, Freddie Mac, or Ginnie Mae.

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, 2011

	Governmental Activities	Business- Type Activities	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 13,611,735	\$ 23,432,364	\$ 37,044,099
Restricted assets:			
Cash and cash equivalents	-	143,964,543	143,964,543
Investments	-	39,772,665	39,772,665
Loans receivable, net of unamortized discounts	-	22,683,407	22,683,407
Accrued interest receivable:			
Loans	-	6,484,268	6,484,268
Deposits and investments	-	892,741	892,741
Accounts receivable:			
Due from grantor	-	1,128,814	1,128,814
Due from other State agency	1,085,731	-	1,085,731
Internal balances	(220,847)	220,847	-
Other	-	921,463	921,463
Loans receivable	558,419	295,747	854,166
Accrued interest receivable:			
Loans	108,870	61,341	170,211
Deposits and investments	43	28,148	28,191
Unamortized bond issuance costs	-	465,129	465,129
Other current assets	-	538,407	538,407
Total current assets	<u>15,143,951</u>	<u>240,889,884</u>	<u>256,033,835</u>
Noncurrent assets:			
Loans receivable, net of current portion and unamortized discounts	11,245,446	18,225,863	29,471,309
Allowance for doubtful loans	(974,840)	-	(974,840)
Restricted assets:			
Investments	-	126,882,268	126,882,268
Loans receivable, net of current portion and unamortized discounts	-	755,862,806	755,862,806
Allowance for doubtful loans	-	(3,511,469)	(3,511,469)
Unamortized bond issuance costs	-	6,061,646	6,061,646
Capital assets, net of accumulated depreciation	-	880,295	880,295
Total noncurrent assets	<u>10,270,606</u>	<u>904,401,409</u>	<u>914,672,015</u>
Total assets	<u>25,414,557</u>	<u>1,145,291,293</u>	<u>1,170,705,850</u>

(CONTINUED)

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

STATEMENT OF NET ASSETS

**JUNE 30, 2011
(CONTINUED)**

	Governmental Activities	Business- Type Activities	Totals
Liabilities			
Current liabilities:			
Liabilities payable from restricted assets:			
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	\$ -	\$ 25,513,990	\$ 25,513,990
Accrued interest payable on bonds	-	18,481,712	18,481,712
Other liabilities	-	62,138	62,138
Mortgage escrows	-	4,935,799	4,935,799
Total liabilities payable from restricted current assets	-	48,993,639	48,993,639
Accrued compensated absences	-	414,646	414,646
Accrued salaries and related payroll expenses	-	771,091	771,091
Deferred revenue	4,971,023	111,424	5,082,447
Other liabilities	70,100	576,948	647,048
Total current liabilities	<u>5,041,123</u>	<u>50,867,748</u>	<u>55,908,871</u>
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	-	293,090	293,090
Bonds payable, net of current portion of unamortized premiums and discounts and deferred losses on refundings	-	764,583,599	764,583,599
Other noncurrent liabilities	-	379,453	379,453
Total noncurrent liabilities	-	<u>765,256,142</u>	<u>765,256,142</u>
Total liabilities	<u>5,041,123</u>	<u>816,123,890</u>	<u>821,165,013</u>
Commitments and contingencies (<i>Note 15</i>)			
Net Assets			
Invested in capital assets	-	880,295	880,295
Restricted for:			
Debt service	-	31,762,709	31,762,709
Bond reserves	-	8,969,568	8,969,568
Housing projects and development	20,373,434	243,237,526	263,610,960
Unrestricted	-	44,317,305	44,317,305
Total net assets	<u>\$ 20,373,434</u>	<u>\$ 329,167,403</u>	<u>\$ 349,540,837</u>

See accompanying notes.

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

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

	<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>
Functions/Programs						
Governmental activities:						
General government	\$ 2,676,876	\$ -	\$ 1,702,036	\$ (974,840)	\$ -	\$ (974,840)
Housing assistance	828,378	-	828,378	-	-	-
Housing development	7,238,341	-	225,958	(7,012,383)	-	(7,012,383)
Total governmental activities	<u>10,743,595</u>	<u>-</u>	<u>2,756,372</u>	<u>(7,987,223)</u>	<u>-</u>	<u>(7,987,223)</u>
Business-type activities:						
Administrative	17,226,312	13,733,703	-	-	(3,492,609)	(3,492,609)
Single Family Mortgage Loan Programs	39,865,910	43,079,468	7,845,447	-	11,059,005	11,059,005
Federal Programs	214,207,732	-	221,220,299	-	7,012,567	7,012,567
Program Fund Programs	2,054,359	331,488	14,839	-	(1,708,032)	(1,708,032)
Total business-type activities	<u>273,354,313</u>	<u>57,144,659</u>	<u>229,080,585</u>	<u>-</u>	<u>12,870,931</u>	<u>12,870,931</u>
Total functions/programs	<u>\$ 284,097,908</u>	<u>\$ 57,144,659</u>	<u>\$ 231,836,957</u>	<u>(7,987,223)</u>	<u>12,870,931</u>	<u>4,883,708</u>
General revenue:						
Documentary stamp taxes				5,724,555	-	5,724,555
Transfers between activities				(400,000)	400,000	-
Total general revenue and transfers				<u>5,324,555</u>	<u>400,000</u>	<u>5,724,555</u>
Change in net assets				(2,662,668)	13,270,931	10,608,263
Net assets, at beginning of year				<u>23,036,102</u>	<u>315,896,472</u>	<u>338,932,574</u>
Net assets, at end of year				<u>\$ 20,373,434</u>	<u>\$ 329,167,403</u>	<u>\$ 349,540,837</u>

See accompanying notes.

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

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

	Housing Trust Fund	SC Help Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 8,349,808	\$ 5,261,927	\$ 13,611,735
Accounts receivable:			
Due from other State agency	1,085,731	-	1,085,731
Loans receivable	558,419	-	558,419
Accrued interest receivable:			
Loans	108,870	-	108,870
Deposits and investments	-	43	43
Total current assets	10,102,828	5,261,970	15,364,798
Noncurrent assets:			
Loans receivable, net of current portion	11,245,446	-	11,245,446
Allowance for doubtful loans	(974,840)	-	(974,840)
Total noncurrent assets	10,270,606	-	10,270,606
Total assets	\$ 20,373,434	\$ 5,261,970	\$ 25,635,404
Liabilities and Fund Balance			
Current liabilities:			
Due to other funds	-	220,847	220,847
Deferred revenue	-	4,971,023	4,971,023
Other liabilities	-	70,100	70,100
Total current liabilities	-	5,261,970	5,261,970
Commitments and contingencies (<i>Note 15</i>)			
Fund balance:			
Restricted for:			
Housing projects and development	20,373,434	-	20,373,434
Total fund balance	20,373,434	-	20,373,434
Total liabilities and fund balance	\$ 20,373,434	\$ 5,261,970	\$ 25,635,404

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, 2011

	Housing Trust Fund	SC Help Fund	Total
Revenue			
Documentary stamp taxes	\$ 5,724,555	\$ -	\$ 5,724,555
Federal grants	-	2,528,977	2,528,977
Interest on loans	213,800	-	213,800
Interest on deposits and investments	12,158	1,437	13,595
Total revenue	5,950,513	2,530,414	8,480,927
Expenditures:			
General government	974,840	1,702,036	2,676,876
Housing assistance	-	828,378	828,378
Housing development	7,238,341	-	7,238,341
Total expenditures	8,213,181	2,530,414	10,743,595
Deficit of revenue under expenditures	(2,262,668)	-	(2,262,668)
Other Financing Sources (Uses)			
Transfer to other funds	(400,000)	-	(400,000)
Total other financing sources (uses)	(400,000)	-	(400,000)
Net change in fund balance	(2,662,668)	-	(2,662,668)
Fund balance, at beginning of year	23,036,102	-	23,036,102
Fund balance, at end of year	\$ 20,373,434	\$ -	\$ 20,373,434

See accompanying notes.

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

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2011

	General Operating	Single Family Finance Programs	Program	Eliminations	Totals
Assets					
Current assets:					
Cash and cash equivalents	\$ 13,630,234	\$ -	\$ 9,802,130	\$ -	\$ 23,432,364
Restricted assets:					
Cash and cash equivalents	6,278,575	137,685,968	-	-	143,964,543
Investments	-	39,772,665	-	-	39,772,665
Loans receivable, net of unamortized discounts	4,491,487	18,191,920	-	-	22,683,407
Accrued interest receivable:					
Loans	334,074	6,150,194	-	-	6,484,268
Deposits and investments	-	892,741	-	-	892,741
Accounts receivable:					
Due from grantor	1,128,814	-	-	-	1,128,814
Due from other funds	1,384,505	112,002	-	(1,275,660)	220,847
Other	921,463	-	-	-	921,463
Loans receivable	178,906	-	116,841	-	295,747
Accrued interest receivable:					
Loans	44,575	-	16,766	-	61,341
Deposits and investments	-	-	28,148	-	28,148
Unamortized bond issuance costs	-	465,129	-	-	465,129
Other current assets	538,407	-	-	-	538,407
Total current assets	<u>28,931,040</u>	<u>203,270,619</u>	<u>9,963,885</u>	<u>(1,275,660)</u>	<u>240,889,884</u>
Noncurrent assets:					
Loans receivable, net of current portion and unamortized discounts	7,499,574	-	10,726,289	-	18,225,863
Restricted assets:					
Investments	-	126,882,268	-	-	126,882,268
Loans receivable, net of current portion and unamortized discounts	66,020,509	689,842,297	-	-	755,862,806
Allowance for doubtful loans	(3,511,469)	-	-	-	(3,511,469)
Unamortized bond issuance costs	-	6,061,646	-	-	6,061,646
Capital assets, net of accumulated depreciation					
	880,295	-	-	-	880,295
Total noncurrent assets	<u>70,888,909</u>	<u>822,786,211</u>	<u>10,726,289</u>	<u>-</u>	<u>904,401,409</u>
Total assets	<u>99,819,949</u>	<u>1,026,056,830</u>	<u>20,690,174</u>	<u>(1,275,660)</u>	<u>1,145,291,293</u>

(CONTINUED)

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

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

**JUNE 30, 2011
(CONTINUED)**

	General Operating	Single Family Finance Programs	Program	Eliminations	Totals
Liabilities					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable	\$ -	\$ 25,513,990	\$ -	\$ -	\$ 25,513,990
Accrued interest payable on bonds	-	18,481,712	-	-	18,481,712
Other liabilities	62,138	-	-	-	62,138
Mortgage escrows	4,935,799	-	-	-	4,935,799
Total liabilities payable from restricted assets	4,997,937	43,995,702	-	-	48,993,639
Accrued compensated absences	414,646	-	-	-	414,646
Accrued salaries and related payroll expenses	771,091	-	-	-	771,091
Due to other funds	34,842	1,240,818	-	(1,275,660)	-
Deferred revenue	36,424	75,000	-	-	111,424
Other liabilities	355,302	219,451	2,195	-	576,948
Total current liabilities	6,610,242	45,530,971	2,195	(1,275,660)	50,867,748
Noncurrent liabilities:					
Accrued compensated absences, net of current portion	293,090	-	-	-	293,090
Bonds payable, net of current portion of unamortized premiums and discounts and deferred losses on refundings	-	764,583,599	-	-	764,583,599
Other noncurrent liabilities	-	379,453	-	-	379,453
Total noncurrent liabilities	293,090	764,963,052	-	-	765,256,142
Total liabilities	6,903,332	810,494,023	2,195	(1,275,660)	816,123,890
Commitments and contingencies (Note 15)					
Net Assets					
Invested in capital assets	880,295	-	-	-	880,295
Restricted for:					
Debt service	-	31,762,709	-	-	31,762,709
Bond reserves	-	8,969,568	-	-	8,969,568
Housing projects and developments	68,406,996	174,830,530	-	-	243,237,526
Unrestricted	23,629,326	-	20,687,979	-	44,317,305
Total net assets	\$ 92,916,617	\$ 215,562,807	\$ 20,687,979	\$ -	\$ 329,167,403

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, 2011

	General Operating	Single Family Finance Programs	Program	Eliminations	Totals
Operating Revenue					
Interest and other charges on loans	\$ 1,859,873	\$ 43,079,468	\$ 314,965	\$ -	\$ 45,254,306
Interest on deposits and investments	5,503	7,262,328	14,839	-	7,282,670
Administrative fees and other	14,493,309	583,119	16,523	(2,624,982)	12,467,969
Total operating revenue	<u>16,358,685</u>	<u>50,924,915</u>	<u>346,327</u>	<u>(2,624,982)</u>	<u>65,004,945</u>
Operating Expenses					
Bond interest	-	37,528,626	-	-	37,528,626
Program services	-	3,098,431	-	(1,718,149)	1,380,282
General and administrative	16,961,793	-	-	-	16,961,793
Bond issuance cost amortization	-	467,022	-	-	467,022
Depreciation of capital assets	264,519	-	-	-	264,519
Other expenses	-	489,980	-	-	489,980
Total operating expenses	<u>17,226,312</u>	<u>41,584,059</u>	<u>-</u>	<u>(1,718,149)</u>	<u>57,092,222</u>
Operating Income	<u>(867,627)</u>	<u>9,340,856</u>	<u>346,327</u>	<u>(906,833)</u>	<u>7,912,723</u>
Nonoperating Revenue (Expenses)					
Federal grant and contract revenue	221,220,299	-	-	-	221,220,299
Housing assistance payments and grant awards disbursed	(215,114,565)	-	(2,054,359)	906,833	(216,262,091)
Total nonoperating revenue (expenses)	<u>6,105,734</u>	<u>-</u>	<u>(2,054,359)</u>	<u>906,833</u>	<u>4,958,208</u>
Income (Loss) Before Transfers	<u>5,238,107</u>	<u>9,340,856</u>	<u>(1,708,032)</u>	<u>-</u>	<u>12,870,931</u>
Transfers					
Transfers in	400,000	1,536,734	-	(1,536,734)	400,000
Transfers out	(765,752)	(770,982)	-	1,536,734	-
Total transfers	<u>(365,752)</u>	<u>765,752</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
Increase (decrease) in net assets	4,872,355	10,106,608	(1,708,032)	-	13,270,931
Net assets, at beginning of year	88,044,262	205,456,199	22,396,011	-	315,896,472
Net assets, at end of year	<u>\$ 92,916,617</u>	<u>\$ 215,562,807</u>	<u>\$ 20,687,979</u>	<u>\$ -</u>	<u>\$ 329,167,403</u>

See accompanying notes.

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2011

	General Operating	Single Family Finance Programs	Program	Totals
Cash Flows From Operating Activities				
Receipt of loan principal payments	\$ 22,075,965	\$ 210,995,420	\$ 5,066,073	\$ 238,137,458
Receipt of loan interest payments	1,774,707	42,464,232	349,877	44,588,816
Purchase/origination of new loans	(30,930,553)	(118,537,075)	(6,870,051)	(156,337,679)
Administrative fees and other	14,766,473	1,195,063	17,086	15,978,622
Payments to employees	(7,695,067)	-	-	(7,695,067)
Payments to vendors	(5,807,250)	(3,159,370)	-	(8,966,620)
Net cash flows provided (used) for operating activities	<u>(5,815,725)</u>	<u>132,958,270</u>	<u>(1,437,015)</u>	<u>125,705,530</u>
Cash Flows From Capital Financing Activities				
Purchase of equipment	(262,231)	-	-	(262,231)
Net cash flows provided (used) for operating activities	<u>(262,231)</u>	<u>-</u>	<u>-</u>	<u>(262,231)</u>
Cash Flows From Noncapital Financing Activities				
Transfers from other programs	400,000	1,536,734	-	1,936,734
Transfers to other programs	(765,752)	(770,982)	-	(1,536,734)
Loans from (to) other programs	(284,336)	63,489	-	(220,847)
Receipts from HUD	221,220,299	-	-	221,220,299
Payments of housing assistance and grants	(215,114,565)	-	(2,054,359)	(217,168,924)
Proceeds from sale of bonds	-	56,000,000	-	56,000,000
Principal payments on bonds payable	-	(86,090,000)	-	(86,090,000)
Interest payments on bonds payable	-	(37,268,042)	-	(37,268,042)
Payment on bond issuance costs	-	(837,890)	-	(837,890)
Net cash provided (used) for noncapital activities	<u>5,455,646</u>	<u>(67,366,691)</u>	<u>(2,054,359)</u>	<u>(63,965,404)</u>
Cash Flows From Investing Activities				
Purchase of investments	-	(157,158,614)	(13,308)	(157,171,922)
Income on deposits and investments	5,502	6,646,041	-	6,651,543
Cash flows from investing activities	<u>5,502</u>	<u>(150,512,573)</u>	<u>(13,308)</u>	<u>(150,520,379)</u>
Net increase (decrease) in cash and cash equivalents	(616,808)	(84,920,994)	(3,504,682)	(89,042,484)
Cash and cash equivalents, beginning of year	<u>20,525,617</u>	<u>222,606,962</u>	<u>13,306,812</u>	<u>256,439,391</u>
Cash and cash equivalents, end of year	<u>\$ 19,908,809</u>	<u>\$ 137,685,968</u>	<u>\$ 9,802,130</u>	<u>\$ 167,396,907</u>

(CONTINUED)

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

**YEAR ENDED JUNE 30, 2011
(CONTINUED)**

	<u>General Operating</u>	<u>Single Family Finance Programs</u>	<u>Program</u>	<u>Totals</u>
Reconciliation of Operating Income to Net Cash Flows Provided by (used in) Operating Activities:				
Operating income (loss)	\$ (867,627)	\$ 9,340,856	\$ 346,327	\$ 8,819,556
Adjustments to reconcile operating income (loss) to net cash flows provided by (used in) operating activities:				
Depreciation	264,519	-	-	264,519
Bond premium amortization	-	611,944	-	611,944
Bond discount amortization	-	13,658	-	13,658
Bond early ext amortization	-	177,405	-	177,405
Bond issuance cost amortization	-	467,022	-	467,022
Bonds interest expense reclassified to noncapital financing activities	-	37,528,626	-	37,528,626
Income on deposits and investments reclassified to investing activities	(5,503)	(7,262,328)	(14,839)	(7,282,670)
Receipt of loan principal payments	22,075,965	210,995,421	5,066,072	238,137,458
Purchase/origination of new loans	(30,930,553)	(118,537,075)	(6,870,051)	(156,337,679)
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	3,862,795	-	-	3,862,795
Increase (decrease) in accounts payable, accrued expenses and due to grantor	108,182	237,977	563	346,722
Increase (decrease) in mortgage escrows	(24,823)	-	-	(24,823)
Increase (decrease) in other liabilities	(213,513)	-	-	(213,513)
(Increase) decrease in accrued interest receivable loans	(85,167)	(615,236)	34,913	(665,490)
Total adjustments	<u>(4,948,098)</u>	<u>123,617,414</u>	<u>(1,783,342)</u>	<u>116,885,974</u>
Net cash provided by (used in) operating activities	<u>\$ (5,815,725)</u>	<u>\$ 132,958,270</u>	<u>\$ (1,437,015)</u>	<u>\$ 125,705,530</u>

(CONTINUED)

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

**YEAR ENDED JUNE 30, 2011
(CONTINUED)**

Noncash Noncapital Financing Activities

- a. Interest payments on bonds do not include \$13,658 amortization of bond discounts and \$177,405 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 \$1,211,206 for the fiscal year ended June 30, 2011.
- c. The Authority converted \$84,000,000 of escrowed debt to bonds payable for the fiscal year ended June 30, 2011.

See accompanying notes.

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

NOTES TO FINANCIAL STATEMENTS

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

The Authority, a primary entity, 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 is a public body, corporate and politic, and a reporting entity of the primary government 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

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 No. 14, "The Financial Reporting Entity," as amended by GASB Statement 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.

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

NOTES TO FINANCIAL STATEMENTS

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 (see Note 6) 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 an applicable governmental fund according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between assets and liabilities is fund balance.

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

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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 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.”

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. South Carolina joins the ranks of other economically distressed states trying to assist homeowners facing the possibility of foreclosure due to circumstances beyond their control. 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 that the Authority had been awarded 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. SC Housing Corp does not issue separate annual statements.

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

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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 by the Authority 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.

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.

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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

Generally, under the applicable bond indentures, the earnings and receipts of loan payments related to investment and mortgage loan assets in the Single Family Finance Program Fund are required to be used 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 of 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 and other. 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

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, New Construction/Substantial Rehabilitation, Contract Administration, Restructuring, Moderate Rehabilitation, 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.

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NOTES TO FINANCIAL STATEMENTS

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 two funding sources specifically for Low-Income Housing Tax Credit (LIHTC) developments: the Tax Credit Assistance Program (TCAP) and Grants in Lieu of Tax Credits (Exchange). 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. 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. Investments held in the pool are recorded at fair value.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

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 accrued interest 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.

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 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 the amortization is included in interest income. Most mortgage loans in the Single Family Finance Program Fund as well as the single family mortgage loans of approximately \$12.2 million in the General Operating Fund are insured with various mortgage insurance carriers at specified percentages of the original loan

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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.

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. 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. The Authority has recorded allowances for doubtful accounts which are considered adequate.

1.J Capital Assets

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

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

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

1.K Mortgage Escrows

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

1.L Compensated Absences

Generally, all permanent full-time State employees and certain part-time employees (those scheduled to work at least one-half of the 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 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, 2011, reported as other liabilities for business-type activities is an arbitrage rebate liability of \$379,453 associated with the Authority's Mortgage Revenue Bonds outstanding.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

1.N Budget Policy

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

1.O Operating and Nonoperating Revenues and Expenses

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with 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.

1.P Net Assets

Net assets are classified and presented in the following components:

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.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Restricted net assets – Restricted net assets for both governmental and business type activities are defined as resources which 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.

Other governmental asset components – 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 assets for the fiscal year ended June 30, 2011.

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

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

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

1.Q Use of Estimates

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

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NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments

2.A Deposits

All deposits of the Authority are insured or collateralized by using the dedicated method. Under the dedicated method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by each of the depository banks.

At June 30, 2011, the Authority's bank deposits had a carrying amount of \$32,261,375 and a bank balance of \$32,352,085. \$250,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the dedicated method.

Financial Statements	Footnotes
Current assets:	Deposits:
Cash and cash equivalents:	Deposits held by State
Unrestricted \$ 37,044,099	Treasurer \$ 25,335,264
Restricted 143,964,543	Other deposits <u>155,673,378</u>
Investments:	Total deposits <u>181,008,642</u>
Restricted 39,772,665	Investments:
Non-current assets:	Treasurer 39,772,665
Investments:	Other investments <u>126,882,268</u>
Restricted <u>126,882,268</u>	Total investments <u>166,654,933</u>
Total <u>\$ 347,663,575</u>	Total <u>\$ 347,663,575</u>

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.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments (Continued)

2.C Investments

At June 30, 2011, the Authority's investment balances were as follows:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>Greater Than 1 Year</u>
Government National Mortgage Association insured Backed Securities (GNMAs)	\$ 126,882,268	\$ -	\$ 126,882,268
SC State Treasurer Pool	39,772,665	39,772,665	-
Totals	<u>\$ 166,654,933</u>	<u>\$ 39,772,665</u>	<u>\$ 126,882,268</u>

2.D Investment Risk Factors

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

2.D.1 Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline because of changes in interest rates. As a means of limiting its exposure to interest rate risk, the revenue funds for 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, 2011, the Authority had \$19,239,699 held by the Trustee as cash which will be used as part of the debt service payment scheduled for July 1, 2011. The Authority has no policy on custodial credit risk.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments (Continued)

2.D.3 Credit Risk

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

2.D.4 Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer. More than 5% of the Authority’s investments are in the following investments: *GNMAs 42%, US Treasury Bills 12%, Guaranteed Investment Contracts 6%, State Treasurer Investment Pools 13%, and Tri-Party Repo’s 20%*. The amounts invested in Guaranteed Investment Contracts are divided among a number of different providers in order to further limit the risk in this category of investments.

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) in the Single Family 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, 2011, are as follows:

	Reserve Requirements	Actual Funding	Over (Short)
Single Family Mortgage Reserve			
Funds-1998	\$ 2,640,450	\$ 3,209,250	\$ 568,800
Mortgage Revenue Indenture			
Reserve Funds	5,084,100	5,760,318	676,218
Totals	\$ 7,724,550	\$ 8,969,568	\$ 1,245,018

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

3. Loans Receivable

Loans receivable, net of unamortized discounts, consist of the following:

Governmental Funds

Housing Trust Fund notes maturing on various dates 2011-2041 plus interest ranging from 0% -5.5% per annum payable in monthly installments of principal and interest, as provided in the notes. Reported net of allowance for doubtful accounts of \$974,840.	\$ 10,829,025
Total governmental funds	\$ 10,829,025

Proprietary Funds

General Operating Fund notes maturing in various dates from 2012-2041 plus interest ranging from 0.0% -12.25% per annum, payable in installments of principal and interest as provided in the notes. Reported net of allowance for doubtful accounts of \$3,511,469.	\$ 74,679,007
Program Fund notes maturing on various dates from 2014- 2031 plus interest ranging from 2.79% - 5.00% per annum; payable in monthly installments of principal and interest as provided in the notes.	10,843,130
Single Family Finance Programs notes maturing on dates from 2011-2040 plus interest ranging from 3.999% -8.5% per annum, payable in monthly installments of principal and interest.	708,034,217
Total proprietary funds	\$ 793,556,354

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balances July 1, 2010	Increases	Decreases	Ending Balances June 30, 2011
Equipment and furniture	\$ 1,663,575	\$ 262,231	\$ -	\$ 1,925,806
Accumulated depreciation	(780,992)	(264,519)	-	(1,045,511)
Capital assets, net of accumulated depreciation	<u>\$ 882,583</u>	<u>\$ (2,288)</u>	<u>\$ -</u>	<u>\$ 880,295</u>

5. Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2011, was as follows:

Business type Activity	Beginning Balances July 1, 2010	Additions	Reductions	Ending Balances June 30, 2011	Due within One Year
Bonds payable	\$ 811,840,000	\$ 56,000,000	\$ 86,090,000	\$ 781,750,000	\$ 24,930,000
Unamortized premiums and discounts	9,325,222	1,182,196	556,594	9,950,824	740,039
Deferred amount on refunding	(1,780,640)	-	(177,405)	(1,603,235)	(156,049)
Total bonds payable	<u>819,384,582</u>	<u>57,182,196</u>	<u>86,469,189</u>	<u>790,097,589</u>	<u>25,513,990</u>
Accrued arbitrage	366,680	12,773	-	379,453	-
Accrued compensated absences	708,571	413,811	414,646	707,736	414,646
Totals	<u>\$ 820,459,833</u>	<u>\$ 57,608,780</u>	<u>\$ 86,883,835</u>	<u>\$ 791,184,778</u>	<u>\$ 25,928,636</u>

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

6. Bonds Payable

At June 30, 2011, bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refunding of debt, consisted of the following:

	<u>Date Issued</u>	<u>Issue Amount</u>	<u>Outstanding Balance</u>
Single Family Mortgage Revenue Bonds 1998 (5.00% to 5.5%) due 2014-2035	09/11/98	\$ 106,975,000	\$ 88,015,000
Plus: Unamortized premium			<u>905,187</u>
			<u>88,920,187</u>
Mortgage Revenue Bonds			
1997A (5.40% to 5.95%) due 2011-2029	06/01/97	30,000,000	8,685,000
1999A (4.70% to 5.40%) due 2011-2031	12/23/98	37,700,000	7,970,000
1999B (5.20% to 8.30%) due 2011-2031	11/01/99	139,910,000	22,135,000
2000A (5.875% to 6.40%) due 2011-2031	06/01/00	121,435,000	19,310,000
2001A (4.60% to 5.50%) due 2011-2033	08/01/01	63,455,000	24,080,000
2002A (3.50% to 4.95%) due 2011-2034	10/16/02	40,000,000	19,260,000
2003A (3.90% to 5.45%) due 2011-2034	09/10/03	50,000,000	23,430,000
2004A (3.80% to 5.50%) due 2011-2035	07/01/04	100,000,000	63,885,000
2005A (3.25% to 5.00%) due 2011-2036	06/15/05	81,720,000	55,805,000
2006A/B (3.75% to 5.75%) due 2011-2037	06/30/06	98,000,000	74,625,000
2006C (3.55% to 5.50%) due 2011-2037	12/19/06	83,540,000	68,250,000
2007A (3.95% to 5.55%) due 2011-2038	09/11/07	83,000,000	71,800,000
2008A (2.85% to 6.00%) due 2011-2039	06/04/08	20,000,000	17,555,000
2008B (3.65% to 6.00%) due 2011-2039	08/28/08	45,215,000	<u>41,325,000</u>
			518,115,000
Plus: Unamortized premium			8,041,434
Less: Unamortized discounts			(141,727)
Unamortized deferred losses on refundings of debt			<u>(1,603,235)</u>
			<u>524,411,472</u>
Homeownership Revenue Bonds			
2009-1 Escrow Bonds due 2041	01/12/10	120,000,000	36,000,000
2010-1 (0.70% to 5.00%) due 2011-2041	07/01/10	100,000,000	99,620,000
2010-2 (1.00% to 5.00%) due 2012-2041	12/09/10	40,000,000	<u>40,000,000</u>
			175,620,000
Plus: Unamortized premium			<u>1,145,930</u>
			<u>176,765,930</u>
Total bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			<u><u>\$ 790,097,589</u></u>

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

6. Bonds Payable (Continued)

Amounts, including interest, required to complete payment of the bond obligations as of June 30, 2011, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 24,930,000	\$ 36,666,485	\$ 61,596,485
2013	14,125,000	35,705,556	49,830,556
2014	13,950,000	35,120,288	49,070,288
2015	17,605,000	34,439,557	52,044,557
2016	18,760,000	33,232,957	51,992,957
2017-2021	117,675,000	152,509,499	270,184,499
2022-2026	141,660,000	117,402,241	259,062,241
2027-2031	153,020,000	80,519,169	233,539,169
2032-2036	170,285,000	38,758,708	209,043,708
2037-3041	73,340,000	6,410,632	79,750,632
2042-2046	36,400,000	6,020	36,406,020
Total	<u>\$ 781,750,000</u>	<u>\$ 570,771,112</u>	<u>\$ 1,352,521,112</u>

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

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, 2011:

Single Family Finance Programs:

Single Family Bonds	
Series 1998 A	\$ 13,610,000
 Mortgage Revenue Bonds	
Series 1997 A	530,000
Series 1999 A	570,000
Series 1999 B	7,275,000
Series 2000 A	5,610,000
Series 2001 A	2,700,000
Series 2002 A	1,905,000
Series 2003 A	4,425,000
Series 2004 A	6,060,000
Series 2005 A	6,985,000
Series 2006 A and B	8,435,000
Series 2006 C	6,295,000
Series 2007 A	5,765,000
Series 2008 A and B	1,270,000
Series 2008 C	2,295,000
 Homeownership Revenue Bonds	
Series 2008 C	380,000
Total	<u>\$ 74,110,000</u>

Amortization of bond discounts for the year ended June 30, 2011, that were included in bond interest expense in the Single Family Finance Programs Fund was \$13,658.

Bond premium amortized for the year ended June 30, 2011, and attributable to the Single Family Finance Programs Fund bonds totaled \$611,944 and was reported as other revenue in the fund.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

6. Bonds Payable (Continued)

Amortization of deferred losses on refundings of debt of \$177,405 for the year ended June 30, 2011, 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, 2010, 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 fiscal year 2012.

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>	
2012	\$ 332,415
2013	336,658
2014	336,054
2015	343,103
2016	349,347
2017	<u>117,600</u>
Total leases with external entities	<u><u>\$ 1,815,177</u></u>

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

7. Leases (Continued)

The Authority incurred rental expense of approximately \$306,298 under the aforementioned leases for the fiscal year ended June 30, 2011.

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 \$168,424 in fiscal year 2011.

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.

In addition to the above leases, the Authority has entered into four noncancellable copier leases with outside entities on a "pay per copy" plan due to expire in the fiscal year ending June 30, 2012. Approximately \$39,726 was expended under these leases during the fiscal year ended June 30, 2011.

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 \$90,000 through the Statewide Indirect Cost Allocation Plan during the fiscal year.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

8. Transactions with State Entities (Continued)

- 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 2011 expenditures were not readily available.

9. Fund Transfers

Fund transfers to and from other funds, which are legally allowable and in accordance with the terms of the respective bond indentures, as applicable, during the year ended June 30, 2010, are as follows:

- \$765,752 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.
- \$770,982 from the Mortgage Revenue segment to the Single Family segment to fund debt service.

10. Risk Management

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

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

10. Risk Management (Continued)

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

1. Claims of State employees for unemployment compensation benefits (SC Department of Employment and Workforce)
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund)
3. Claims of covered public employees for health and dental insurance benefits (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.

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

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

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

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

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

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

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.

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
Fiscal Year 1989 (88/89)			
07/88	Multifamily Housing Revenue Bonds (Paces Landing Series 1988)	\$ 8,750,000	\$ 8,750,000
Fiscal Year 2000 (99/00)			
07/99	Multifamily Housing Revenue Bonds (CTS Rock Hill Project)	9,145,000	9,145,000
Fiscal Year 2001 (00/01)			
10/00	Multifamily Rental Housing Revenue Bonds (City Heights Apts.)	5,985,000	5,620,000
10/00	Multifamily Rental Housing Revenue Bonds (Spartanburg Terrace Apts.)	4,210,000	3,995,000
10/00	Multifamily Housing Revenue Bonds (Piedmont Manor Apts.)	5,755,000	5,515,000
12/00	Multifamily Rental Housing Revenue Bonds (Bent Tree Apts./Richland Oxford)	11,130,000	7,718,000
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
Fiscal Year 2002 (01/02)			
12/01	Multifamily Rental Housing Revenue Bonds (Cedarwood Apartments-Columbia, SC)	8,750,000	7,675,000
12/01	Multifamily Rental Housing Revenue Bonds (Belton Woods Apts.)	5,795,000	4,590,000
Fiscal Year 2003 (02/03)			
11/02	Multifamily Guaranteed Mortgage Revenue Bonds (CTS Parklane)	12,050,000	12,050,000
12/02	Multifamily Rental Housing Revenue Bonds (Poplar Square Apartments)	2,960,000	2,391,120
12/02	Multifamily Rental Housing Revenue Bonds (Spring Grove Apartments Project)	7,410,000	6,800,000

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

11. Conduit Debt (Continued)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
Fiscal Year 2004 (03/04)			
04/04	Multifamily Rental Housing Revenue Bonds (Beverly Apartments Project)	\$ 3,010,000	\$ 2,850,000
04/04	Multifamily Rental Housing Revenue Bonds (Hillandale Apartments Project)	6,660,000	5,860,000
06/04	Multifamily Rental Housing Revenue Bonds (Greenville Arms Apartments Project)	4,265,000	4,030,000
06/04	Multifamily Rental Housing Revenue Bonds (Canebreak Apartments Project)	4,500,000	4,215,219
Fiscal Year 2005 (04/05)			
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	9,400,000
12/04	Multifamily Rental Housing Revenue Bonds (Planters Retreat Apartments Project)	11,850,000	10,717,832
05/05	Multifamily Rental Housing Revenue Bonds (Wenmont Apartments Project)	6,210,000	6,002,431
Fiscal Year 2006 (05/06)			
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	8,666,343
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	11,140,000
06/06	Multifamily Rental Housing Revenue Bonds (Spanish Trace Apartments Project)	3,685,000	3,575,000

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

11. Conduit Debt (Continued)

<u>Issue Date</u>	<u>Bond/Note Title</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding</u>
	Fiscal Year 2008 (07/08)		
01/08	Multifamily Rental Housing Revenue Bonds (Bridle Ridge Apartments)	\$ 7,885,000	\$ 7,840,000
	Fiscal Year 2009 (08/09)		
11/08	Multifamily Rental Housing Revenue Bonds (Franklin Square Apartments)	9,800,000	9,800,000
12/08	Multifamily Rental Housing Revenue Bonds (Brookside Crossing)	9,900,000	9,900,000
	Fiscal Year 2010 (09/10)		
12/09	Multifamily Rental Housing Revenue Bonds (Crossroads Apartments)	2,150,000	180,354
Total		<u>\$ 259,340,000</u>	<u>\$ 244,316,299</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.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

12. Pension Plan (Continued)

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 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% of all compensation. For the year ended June 30, 2011, the employer contribution rate was 9.24% (before a surcharge to fund retiree health and dental insurance coverage). For the year ended June 30, 2010, this rate was 9.24% and for the year ended June 30, 2009, this rate was also 9.24%. The Authority's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2011, 2010, and 2009 were approximately \$592,244, \$523,000 and \$508,000 respectively, and equaled the required contributions (excluding the surcharge) for each year. Also, the Authority paid employer group life insurance contributions of approximately \$9,426 for the current fiscal year at the rate of .15% of compensation.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

12. Pension Plan (Continued)

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.

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 employer/employee 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 therefore 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.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

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

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 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, 2011, was \$232,433 which equaled the required contribution rate of 3.90%. 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, 2011.

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.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

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

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 in the amount of \$592,244 for the year ended June 30, 2011.

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, 2011.

15. Commitments and Contingencies

Financial Award Commitments

As of June 30, 2011, the Authority has financial award commitments outstanding totaling approximately \$6,972,407 under the Housing Trust Fund programs and \$250,000 for special initiatives under the Program Fund.

**SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS

15. Commitments and Contingencies (Continued)

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, 2011, 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 14, 2011, which is the date the financial statements were available to be issued.

On October 20, 2011 the Authority intends to issue \$70,000,000 (\$36,000,000 Escrow Bonds and \$34,000,000 Market Bonds) of Homeownership Revenue Bonds (HRB). This will be the final Issue from the New Issue Bond Program which began on January 12, 2010, with the issue of \$120,000,000 in "Escrow Bonds" purchased by the US Government. The Escrow bonds represent 60% of \$200,000,000 allocated to South Carolina. Series 2010-1, \$100,000,000 and Series 2010-2 \$40,000,000 of HRB Bonds have already been issued.

17. Segment Financial Information

Segment financial information as required by the bond trustees for each indenture of the Authority's Single Family Finance Programs as of and for the year ended June 30, 2011, is presented on the following pages.

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

NOTES TO FINANCIAL STATEMENTS

17. Segment Financial Information (Continued)

	Statement of Net Assets - June 30, 2011				
	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve	Totals
Assets					
Current assets:					
Restricted assets:					
Cash and cash equivalents	\$ 2,890,405	\$ 50,454,193	\$ 52,775,790	\$ 31,565,580	\$ 137,685,968
Investments	24,520,130	15,252,535	-	-	39,772,665
Loans receivable, net of unamortized discounts	4,604,500	13,092,888	-	494,532	18,191,920
Accrued interest receivable:					
Loans	922,710	5,184,969	-	42,515	6,150,194
Deposits and investments	78,961	334,748	479,032	-	892,741
Due from other funds	-	-	-	112,002	112,002
Unamortized bond issuance costs	36,018	369,496	59,615	-	465,129
Total current assets	<u>33,052,724</u>	<u>84,688,829</u>	<u>53,314,437</u>	<u>32,214,629</u>	<u>203,270,619</u>
Non-current assets:					
Restricted assets:					
Investments	-	-	126,882,268	-	126,882,268
Loans receivable, net of unamortized discounts	160,583,830	521,930,102	-	7,328,365	689,842,297
Unamortized bond issuance costs	601,355	4,346,223	1,114,068	-	6,061,646
Total noncurrent assets	<u>161,185,185</u>	<u>526,276,325</u>	<u>127,996,336</u>	<u>7,328,365</u>	<u>822,786,211</u>
Total assets	<u>194,237,909</u>	<u>610,965,154</u>	<u>181,310,773</u>	<u>39,542,994</u>	<u>1,026,056,830</u>

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

NOTES TO FINANCIAL STATEMENTS

17. Segment Financial Information (Continued)

	Statement of Net Assets - June 30, 2011				
	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve	Totals
Liabilities					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable	\$ 50,237	\$ 21,622,164	\$ 3,841,589	\$ -	\$ 25,513,990
Accrued interest payable on bonds	2,309,025	13,623,684	2,549,003	-	18,481,712
Total liabilities payable from restricted assets	2,359,262	35,245,848	6,390,592	-	43,995,702
Due to other funds	-	100,000	1,077,330	63,488	1,240,818
Deferred Revenue	-	-	-	75,000	75,000
Other liabilities	38,686	178,410	-	2,355	219,451
Total current liabilities	2,397,948	35,524,258	7,467,922	140,843	45,530,971
Non-current liabilities:					
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings					
	88,869,951	502,789,307	172,924,341	-	764,583,599
Other non-current liabilities	-	379,453	-	-	379,453
Total noncurrent liabilities	88,869,951	503,168,760	172,924,341	-	764,963,052
Total Liabilities	91,267,899	538,693,018	180,392,263	140,843	810,494,023
Net Assets					
Restricted for:					
Debt service	2,309,025	29,453,684	-	-	31,762,709
Bond reserves	3,209,250	5,760,318	-	-	8,969,568
Special programs	97,451,735	37,058,134	918,510	39,402,151	174,830,530
Total net assets	\$ 102,970,010	\$ 72,272,136	\$ 918,510	\$ 39,402,151	\$ 215,562,807

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

NOTES TO FINANCIAL STATEMENTS

17. Segment Financial Information (Continued)

Statement of Revenue, Expenses, and Changes in Net Assets - Year Ended June 30, 2011

	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve	Totals
Operating revenue					
Interest and other charges on loans	\$ 7,422,564	\$ 34,689,070	\$ -	\$ 967,834	\$ 43,079,468
Income on deposits and investments	966,463	2,370,255	3,937,697	(12,087)	7,262,328
Administrative fees and other	49,164	484,823	36,364	12,768	583,119
Total operating revenue	8,438,191	37,544,148	3,974,061	968,515	50,924,915
Operating expenses					
Bond interest	4,627,738	28,717,294	4,183,594	-	37,528,626
Program services	366,778	2,729,622	9,052	(7,021)	3,098,431
Bond issuance cost amortization	34,618	393,090	39,314	-	467,022
Other expenses	5,376	354,741	5,480	124,383	489,980
Total operating expenses	5,034,510	32,194,747	4,237,440	117,362	41,584,059
Operating income (loss)	3,403,681	5,349,401	(263,379)	851,153	9,340,856
Transfers					
Transfers in	770,982	-	765,752	-	1,536,734
Transfers out	-	(770,982)	-	-	(770,982)
Total transfers	770,982	(770,982)	765,752	-	765,752
Increase (decrease) in net assets	4,174,663	4,578,419	502,373	851,153	10,106,608
Net assets, at beginning of year, as restated	98,795,347	67,693,717	416,137	38,550,998	205,456,199
Net assets, at end of year	\$ 102,970,010	\$ 72,272,136	\$ 918,510	\$ 39,402,151	\$ 215,562,807

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

NOTES TO FINANCIAL STATEMENTS

17. Segment Financial Information (Continued)

Statement of Cash Flows - Year Ended June 30, 2011

	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve	Totals
Cash Flows From Operating Activities					
Receipt of loan principal payments	\$ 20,560,947	\$ 64,722,056	\$ -	\$ 125,712,417	\$ 210,995,420
Purchase/origination of new loans	(8,429,709)	(8,759,191)	-	(101,348,175)	(118,537,075)
Payments to vendors	(333,121)	(2,706,541)	(14,532)	(105,176)	(3,159,370)
Other receipts	-	-	1,182,295	12,768	1,195,063
Receipt of loan interest payments	7,429,538	34,066,326	-	968,368	42,464,232
operating activities	<u>19,227,655</u>	<u>87,322,650</u>	<u>1,167,763</u>	<u>25,240,202</u>	<u>132,958,270</u>
Cash Flows From Noncapital Financing Activities					
Transfers from other programs	770,982	-	765,752	-	1,536,734
Transfers to other programs	-	(770,982)	-	-	(770,982)
Loans from other programs	-	100,000	-	(36,511)	63,489
Proceeds from sale of bonds	-	-	56,000,000	-	56,000,000
Principal payments on bonds payable	(13,610,000)	(72,100,000)	(380,000)	-	(86,090,000)
Interest payments on bonds payable	(4,976,494)	(30,656,957)	(1,634,591)	-	(37,268,042)
Payment on bond issuance costs	-	-	(837,890)	-	(837,890)
noncapital financing activities	<u>(17,815,512)</u>	<u>(103,427,939)</u>	<u>53,913,271</u>	<u>(36,511)</u>	<u>(67,366,691)</u>
Cash Flows From Investing Activities					
Purchase of investments	(24,520,130)	(15,252,535)	(126,882,268)	9,496,319	(157,158,614)
Income on deposits and investments	978,296	2,200,399	3,458,664	8,682	6,646,041
investing activities	<u>(23,541,834)</u>	<u>(13,052,136)</u>	<u>(123,423,604)</u>	<u>9,505,001</u>	<u>(150,512,573)</u>
Net increase (decrease) in cash and cash equivalents	<u>(22,129,691)</u>	<u>(29,157,425)</u>	<u>(68,342,570)</u>	<u>34,708,692</u>	<u>(84,920,994)</u>
Cash and cash equivalents, beginning of year	25,020,096	79,611,618	121,118,360	(3,143,112)	222,606,962
Cash and cash equivalents, end of year	<u>\$ 2,890,405</u>	<u>\$ 50,454,193</u>	<u>\$ 52,775,790</u>	<u>\$ 31,565,580</u>	<u>\$ 137,685,968</u>

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

NOTES TO FINANCIAL STATEMENTS

17. Segment Financial Information (Continued)

	Cash Flows - Year Ended June 30, 2011				Totals
	Single Family	Mortgage Revenue	Homeownership Bond	Revenue Reserve	
Reconciliation of Operating Income (Loss) to Cash Flows Provided by (Used in) Operating Activities:					
Operating income (loss)	\$ 3,403,681	\$ 5,349,401	\$ (263,379)	\$ 851,153	\$ 9,340,856
Adjustments to reconcile operating income (loss) to cash flows provided by (used in) operating activities:					
Bond premium amortization	(49,164)	(484,823)	1,145,931	-	611,944
Bond discount amortization	-	13,658	-	-	13,658
Bond early exit amortization	-	177,405	-	-	177,405
Bond issuance cost amortization	34,618	393,091	39,314	-	467,023
Bonds interest expense reclassified to non-capital financing activities	4,627,738	28,717,295	4,183,594	-	37,528,627
Income on deposits and investments reclassified to investing activities	(966,464)	(2,370,255)	(3,937,697)	12,087	(7,262,329)
Receipt of loan principal payments	20,560,947	64,722,056	-	125,712,417	210,995,420
Purchase/origination of new loans	(8,429,709)	(8,759,191)	-	(101,348,175)	(118,537,075)
Change in assets and liabilities:					
(Increase) decrease in accrued interest receivable-loans	6,974	(622,743)	-	533	(615,236)
Increase (decrease) in accounts payable, accrued expenses and due to grantor	39,034	186,756	-	12,187	237,977
Total adjustments	15,823,974	81,973,249	1,431,142	24,389,049	123,617,414
Net cash provided by (used in) operating activities	\$ 19,227,655	\$ 87,322,650	\$ 1,167,763	\$ 25,240,202	\$ 132,958,270

OTHER FINANCIAL INFORMATION

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

<u>Year Ended June 30, 2011 Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Total Awards/ Expenditures</u>	<u>Awards/ Expenditures to Subrecipients</u>
Department of Housing and Urban Development			
Section 8 - Project-Based Cluster:			
Housing Assistance Payments Program-Special allocations	14.195	\$ 113,722,397	\$ 5,586,996
Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856	<u>166,847</u>	<u>-</u>
Total Section 8 - Project-Based Cluster:		<u>113,889,244</u>	<u>5,586,996</u>
*HOME Investment Partnership Program	14.239	17,460,066	769,860
HERA Neighborhood Stabilization Program	14.228	11,402,207	1,479,351
ARRA Tax Credit Assistance Program	14.258	4,317,156	-
Section 8 - Housing Choice Vouchers Program	14.871	<u>12,355,454</u>	<u>234,812</u>
Total Direct - Department of Housing and Urban Development		<u>\$ 159,424,127</u>	<u>\$ 8,071,019</u>

* Total Expenditures for the HOME Investment Partnership Program include \$10,848,207 of disbursements that have been recorded as Loans Receivable in the Statement of Net Assets and not included as a Nonoperating Expenses - Housing assistance payments and grant awards disbursed.

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

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
Deputy 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, 2011, which collectively comprise the South Carolina State Housing Finance and Development Authority’s basic financial statements and have issued our report thereon dated October 14, 2011. 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

In planning and performing our audit, we considered the South Carolina State Housing Finance and Development Authority's internal control over financial reporting 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.

Mr. Richard H. Gilbert, Jr. CPA
Deputy State Auditor
Office of the State Auditor
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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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain other matters that we reported to management of the South Carolina State Housing Finance and Development Authority in a separate letter dated October 14, 2011.

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.



Columbia, South Carolina
October 14, 2011

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
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

Compliance

We have audited the 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, 2011. 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, 2011.

Mr. Richard H. Gilbert, Jr. CPA
Deputy State Auditor
Office of the State Auditor
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Internal Control Over Compliance

Management of the 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 the 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 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 the 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.



Columbia, South Carolina
October 14, 2011

South Carolina State Housing Finance and Development Authority
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

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 programs: Section 8 Project Based Cluster - CFDA Numbers 14.195 and 14.856, HOME Investment Partnership Program – CFDA Number 14.239 and Section 8 – Housing Choice Vouchers Program – CFDA Number 14.871.
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, 2011.

Findings and Questioned Costs Relating to Federal Awards

There were no findings related to federal awards for the year ended June 30, 2011.