

SC HOUSING CORP.
COLUMBIA, SOUTH CAROLINA
REPORT ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018



October 29, 2018

Members of the Board of Directors
SC Housing Corp.
Columbia, South Carolina

This report on the audit of the financial statements of the SC Housing Corp. for the fiscal year ended June 30, 2018, was issued by Elliott Davis, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

George L. Kennedy, III, CPA
State Auditor

GLKIII/sag

SC HOUSING CORP.
COLUMBIA, SOUTH CAROLINA
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Independent Auditor's Report

To the Board of Directors
SC Housing Corp.
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and SC Help fund of SC Housing Corp. (the "Corp"), a component unit of South Carolina State Housing Finance and Development Authority, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Corp's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the SC Help fund of SC Housing Corp. as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018 on our consideration of the Corp's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corp's internal control over financial reporting and compliance.



Columbia, South Carolina
October 29, 2018

SC Housing Corp.

Management's Discussion and Analysis

As management of SC Housing Corp. (the "Corp") we offer readers of the Corp's financial statements this narrative overview and analysis of the financial activities of the Corp for the fiscal year ended June 30, 2018.

Overview of South Carolina Homeownership Lending Program

The Corp was created to administer the South Carolina Homeownership and Employment Lending Program (SC HELP) funded with \$317,461,821 from the U.S. Department of Treasury's ("Treasury") Hardest Hit Fund. At this time, SC HELP is the only program operated by the Corp.

SC HELP operates five distinct programs: Mortgage Payment Assistance that provides up to 24 months assistance with mortgage payments; Direct Loan Assistance which provides a payment to bring delinquent mortgages current; Property Disposition Assistance which provides a one-time payment to the homeowner to help transition from homeownership to renting; Modification Assistance which provides funds to eligible homeowners to assist them in bringing their delinquent mortgages current and applying funds to the principal balance to assist in a loan modification; and the Neighbor Initiative Program ("NIP") which provides funds to local governments and non-profit organizations to strategically target residential (single and multifamily) properties for demolition, site improvement, and acceptable reuse within the State of South Carolina. 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. The primary purpose and goal of NIP is to decrease foreclosures and stabilize homeowner property values in communities across South Carolina through the demolition of vacant, abandoned, and blighted residential structures, and subsequent greening/improvement.

The Corp is a not-for-profit component unit of the South Carolina State Housing Finance and Development Authority (the "Authority"). The Corp reimburses the Authority for facilities, data processing and administrative assistance through direct billing and indirect cost allocations. The June 30, 2018 audited financial statements of the Authority are in a separate report which is available on-line at SCHousing.com.

Financial Highlights

- Net position of the governmental activities remained zero throughout the reporting period due to the fact that SC HELP expenses are fully advanced by the Treasury. Assets increased \$29,503,607 to \$38,835,481 and reflect unexpended Treasury draws, accrued interest on investments, and reimbursement for program expenses due from the Authority at June 30, 2018. The increase in unexpended Treasury draws is due to the program requirements that called for a final draw from Treasury. Liabilities decreased \$636,944 to \$253,035 and reflect accounts payable and accrued expenses of \$252,785 and program expenses of \$250 due to the Authority.
- Revenues include \$34,741,536 in operating program revenue, \$2,579,734 in charges for services, \$351,077 in interest on investments held in the fund, and \$1,474,522 in repayment of assistance funds disbursed. Total expenses increased from the prior year as a result of an increase in program activity by \$4,919,332 in mortgage assistance payments to distressed homeowners to \$36,216,058. This increase was offset by a decrease in administrative program expenses by \$1,282,505 to \$2,930,811 primarily related to decreases in staffing.

Overview of the Financial Statements

The financial statements consist of two parts – management’s discussion and analysis and the basic financial statements.

- The financial statements provide information about the Corp’s only fund type - governmental. The financial statements provide information about the Corp’s financial position and results. These statements, which are presented on an accrual basis, consist of the Statement of Net Position and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. The Statement of Net Position and Governmental Fund Balance Sheet include all of the Corp’s assets and liabilities. All of the current year’s revenues and expenses/expenditures are accounted for in the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance regardless of when cash is received or paid.
- The basic financial statements also include a “Notes to Financial Statements” section that explains the information in the Corp’s financial statements. The notes also provide a more detailed explanation of data and significant accounting policies and procedures.

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 Corp’s activities and financial position. The Corp consists of a single governmental fund.

Governmental Funds - Governmental funds focus primarily on the sources, uses and balances of current financial resources. The Corp reports one major fund, the SC Help Fund, which accounts for the operations of the Corp as well as resources that fund services provided by the Corp.

Financial Analysis of SC Housing Corp.

Statement of Net Position: The following table summarizes the financial position for the Corp as of June 30, 2018 and 2017.

	Totals	
	2018	2017
Total current assets	\$ 38,835,481	\$ 9,331,874
Total assets	<u>\$ 38,835,481</u>	<u>\$ 9,331,874</u>
Total current liabilities	\$ 253,035	\$ 889,979
Total liabilities	<u>\$ 253,035</u>	<u>\$ 889,979</u>
Deferred inflows of resources	\$ 38,582,446	\$ 8,441,895
Net position	\$ -	\$ -
Total net position	<u>\$ -</u>	<u>\$ -</u>

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

	Totals	
	2018	2017
Revenues:		
Charges for services	\$ 2,579,734	\$ 4,196,112
Program investment and other income	1,825,599	1,144,400
Operating program revenues	<u>34,741,536</u>	<u>30,169,530</u>
Total revenues	<u>39,146,869</u>	<u>35,510,042</u>
Expenses:		
General government	2,930,811	4,213,316
Housing assistance	<u>36,216,058</u>	<u>31,296,726</u>
Total expenses	<u>39,146,869</u>	<u>35,510,042</u>
Change in net position	<u>\$ -</u>	<u>\$ -</u>

Requests for Information

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

SC Housing Corp.
In care of the South Carolina State Housing Finance and Development Authority
Finance Division
300-C Outlet Pointe Boulevard
Columbia, South Carolina 29210

SC HOUSING CORP.

STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET

JUNE 30, 2018

	SC Help Fund	Statement of Net Position
ASSETS		
Cash	\$ 38,597,703	\$ 38,597,703
Interest receivable	49,416	49,416
Due from primary government	188,362	188,362
Total assets	\$ 38,835,481	38,835,481
LIABILITIES		
Accounts payable and accrued expenses	\$ 252,785	252,785
Due to primary government	250	250
Total liabilities	253,035	253,035
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows due to timing restrictions of grants	\$ 38,582,446	\$ 38,582,446
FUND BALANCE/NET POSITION		
Fund balance:		
Unassigned	-	
Total liabilities, deferred inflows and fund balance	\$ 38,835,481	
Net position:		
Unrestricted		-
Total net position		\$ -

See accompanying notes to financial statements.

SC HOUSING CORP.

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

YEAR ENDED JUNE 30, 2018

	<u>SC Help Fund</u>	<u>Statement of Activities</u>
Expenditures/expenses:		
General government	\$ 2,930,811	\$ 2,930,811
Housing assistance	<u>36,216,058</u>	<u>36,216,058</u>
Total program expenditures/expenses	<u>39,146,869</u>	<u>39,146,869</u>
Program revenues:		
Charges for services	2,579,734	2,579,734
Repayment of assistance funds disbursed	1,474,522	1,474,522
Operating program revenues	<u>34,741,536</u>	<u>34,741,536</u>
Total program revenues	<u>38,795,792</u>	<u>38,795,792</u>
Net program expenditures/expenses	<u>(351,077)</u>	<u>(351,077)</u>
General revenues:		
Investment earnings	<u>351,077</u>	<u>351,077</u>
Excess of revenues over expenditures/expenses		
Change in net position	-	-
Fund balance/net position		
Beginning of year	<u>-</u>	<u>-</u>
End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

SC HOUSING CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1. Reporting Entity

The SC Housing Corp. (the “Corp”) was established as a not-for-profit corporation in June 2010 by the South Carolina State Housing Finance and Development Authority (the “Authority”) to administer funds received by South Carolina under the Hardest Hit Fund established by U.S. Department of Treasury (“Treasury”) in February 2010. These funds were targeted to provide aid to families in states hit hard by the economic and housing market downturn. The Corp is responsible for the state-wide administration of these funds. The Corp uses funds under this program to provide:

- Mortgage payment assistance for eligible homeowners by providing up to twenty-four months of assistance with mortgage payments.
- Direct loan assistance by providing funds to eligible homeowners to assist them in bringing their delinquent mortgages current.
- Property disposition assistance to eligible homeowners by providing a one-time payment to the homeowner to help transition from homeownership to renting.
- Modification assistance by providing funds to eligible homeowners to assist them in bringing their delinquent mortgages current and applying funds to assist in a loan modification.
- The Neighbor Initiative Program which provides funds to local governments and non-profit organizations to strategically target residential (single and multifamily) properties for demolition, site improvement, and acceptable reuse.

The Corp is reported as a blended component unit of the Authority and its financial position and results of operations have been reported in the Authority’s financial statements. The Board of Commissioners of the Authority appoints the Board of Directors for the Corp from current Authority Commission members and Authority staff. The Executive Director of the Authority also serves as the Executive Director for the Corp.

The accompanying component unit financial statements present the financial position and results of operations of the Corp and do not include any financial information for the Authority.

Note 2. Summary of Significant Accounting Policies

Fund accounting

The component unit statements of the Corp are presented in accordance with generally accepted accounting principles applicable to state and local government units as recommended by the *Governmental Accounting Standards Board (GASB)*. Such standards require governments to use funds to report their financial positions and the results of operations.

SC HOUSING CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Government-wide financial statements

The statement of net position and the statement of activities report information about all activities of the Corp. The statement of activities demonstrates the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) administrative fees earned by providing services to applicants who directly benefit from services provided, 2) funds received from previous recipients of down payment assistance payments when their residence is sold prior to the expiration of the time period specified in the assistance agreement, and 3) program funds that are restricted to meeting the operational requirements of a particular function. Interest and other items not properly included among program revenues are reported as general revenues. The effect of any interfund activity has been removed from the government-wide financial statements.

Fund financial statements

The fund financial statements provide information about the Corp's funds. The Corp only reports one fund type – governmental. The emphasis on fund financial statements is on major funds.

Governmental funds

Governmental funds focus primarily on the sources, uses, and balances of current financial resources. The Corp only reports one major fund – the SC Help Fund.

The SC Help Fund accounts for resources that fund the services the Corp provides to the citizens of South Carolina. Because all funding of the Corp is a result of the Emergency Economic Stabilization Act of 2008, which is the basis for the Hardest Hit Fund program, the Corp maintains only one governmental fund. The fund is classified as a special revenue fund as the fund is used to account for and report the proceeds of a specific revenue source, which comprises a substantial portion of the inflows reported in the fund.

Measurement focus basis of accounting

A particular measurement focus determines what resources are measured. The Corp reports its government-wide financial statements using the economic resources measurement focus. The Corp reports its governmental funds using the current financial resources measurement focus.

The basis of accounting determines when the Corp recognizes revenues and expenditures/expenses as well as the related assets and liabilities, regardless of measurement focus. Generally accepted accounting principles for governments require the use of accrual and the modified accrual basis of accounting as described below.

The accounts of the Corp are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

SC HOUSING CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Accrual basis of accounting

The Corp uses the accrual basis of accounting in reporting its government-wide financial statements. Under the accrual basis, the Corp generally records revenues when earned and reasonably measurable and records expenses when a liability is incurred, regardless of the timing of related cash flows. Revenues collected in advance are deferred until the period in which they are earned. The Hardest Hit Fund program funds are recognized as revenue as soon as the Corp meets all eligibility requirements.

Modified accrual basis of accounting

The fund financial statements of the Corp are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance presents increases (revenues) and decreases (expenditures) in fund balance. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Corp considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Interest on invested funds is recognized when earned. Funds received from early repayment of down payment assistance previously disbursed are recognized when received.

Cash

Amounts denoted in the financial statements represent cash on deposit in banks.

SC HOUSING CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Fund balance

The following categories are used in the fund level financial statements of the governmental funds:

Nonspendable fund balance – The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash; for example, inventories and prepaid amounts. It also includes the long-term amounts of loans and notes receivable if the proceeds are not restricted as to use.

Restricted fund balance – The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws and regulations of other governments, or restricted by law through constitutional provisions or enabling legislation.

Committed fund balance – The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Corp’s highest level of decision-making authority, its Board of Directors. Committed amounts cannot be used for any other purpose unless the Corp removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Corp recognizes committed fund balances that have been approved for specific purposes by the Board of Directors before the end of the fiscal year.

Assigned fund balance – The assigned fund balance classification includes amounts that are constrained by the Corp’s intent to be used for a specific purpose, but are not restricted or committed. The authority for making an assignment is not required to be the highest level of decision-making authority, and as such, the nature of the actions necessary to remove or modify an assignment does not require the Corp’s highest level of authority. While the Board of Directors can delegate the authority to assign fund balance amounts, they have not chosen to do so.

Unassigned fund balance – The unassigned fund balance classification includes amounts that have not been assigned to other funds and have not been restricted, committed, or assigned for specific purposes within the fund.

The Corp’s policy for applying resources that can use both restricted and unrestricted resources is to apply the expenditure to restricted resources first, then to unrestricted resources.

SC HOUSING CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Fund balance, continued

Based on the Corp's policies regarding fund balance classifications as noted above, it considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure that has been designated by the Board of Directors or federal funding agencies has been made. After these fund balances have been depleted, unassigned fund balance will be considered to have been spent.

The Corp receives funding from Treasury to administer the SC HELP program. All funds received from Treasury are spent to satisfy the SC HELP program's requirements. Therefore, the Corp does not have any fund balance as of June 30, 2018.

Program revenues

Revenues from federal programs are recognized when qualifying expenditures are made and all program requirements have been met. Cash received by the Corp prior to the Corp making qualifying expenditures is recorded as advances from Treasury as described below.

The agreement between the Corp and Treasury is a *Commitment to Purchase Financial Instrument and HFA Participation Agreement* (the Agreement), with Treasury purchasing troubled assets and the services of the Corp and designating the Corp to participate in the program. Under Federal Public Law 110-343, Emergency Economic Stabilization Act of 2008, the Act provided "authority for the Federal Government to purchase and insure certain types of troubled assets." The participation agreement includes developing and implementing innovative housing initiatives tailored to the local conditions to help prevent foreclosure and stabilize the housing markets. Based on the terms reflected in the Agreement, Treasury does not deem this agreement to be a federal awards grant subject to Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Advances from U.S. Department of Treasury

Advances from Treasury arise on both the government-wide and fund financial statements when resources are received by the Corp before it has legal claim to them. Federal monies are received prior to the occurrence of the qualifying expenditures and are included in both the government-wide and fund financial statements as deferred inflows of resources based on the eligibility requirements having been met. These amounts are recognized as revenue once the timing restrictions have expired and the qualifying expenditures have been spent.

Charges for services

These revenues are derived primarily from providing program application processing to homeowners behind on their mortgage payments. Revenues are recognized upon completion of the service.

SC HOUSING CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Management 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 that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the operating period. The actual outcome of the estimates could differ from the estimates made in the preparation of the financial statements.

Subsequent events

In preparing these financial statements, the Corp has evaluated events and transactions for potential recognition or disclosure through October 29, 2018, the date these financial statements were available to be issued.

Note 3. Deposits

All deposits of the Corp 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 the depository bank.

At June 30, 2018, the Corp's bank deposits had a carrying amount of \$38,597,703 and a bank balance of \$39,079,036. \$250,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the dedicated method.

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure the Corp will not be able to recover the value of the deposits with the collateral securities that are in the possession of an outside party.

Note 4. Related-Party Transactions

The Authority provides accounting services and other administrative functions for the Corp. The Corp reimburses the Authority for any direct costs incurred by the Authority on behalf of the Corp. The Corp reimburses any indirect costs at the Authority's current federal indirect cost rate of 64.02% for direct salaries and wages including all fringe benefits. All of the individuals that perform services for the Corp are employed by the Authority.

The Corp reimbursed the Authority for direct costs of \$2,661,671 and indirect costs of \$269,140 incurred during the fiscal year ended June 30, 2018. These costs are included in general government expenditures/expenses on the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance.

SC HOUSING CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 5. Risk Management

The Corp is exposed to various risks of loss related to torts, theft, errors and omissions, injuries to employees, and life and health of employees. The Corp, through the Authority, maintains state or commercial insurance coverage for such risks. Settled claims have not exceeded commercial insurance coverage, nor has there been any reduction in insurance coverage. The Corp, through the Authority, pays insurance premiums to certain South Carolina state agencies and commercial insurers to cover risks that may occur in normal operations.

The State of South Carolina assumes substantially all risks for the following:

1. Claims of covered employees for unemployment compensation benefits.
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries.
3. Claims of covered employees for health and dental insurance benefits.
4. Claims of covered employees for long-term disability and group-life insurance benefits.

Employees elect health coverage through the State of South Carolina's self-insured plan. All other coverage listed above is through the applicable State of South Carolina self-insured plan, except the dependent and optional life premiums are remitted to commercial carriers.

The Corp, through the Authority, pays premiums to the State of South Carolina's Insurance Reserve Fund 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, or damage to, or destruction of assets.
2. Torts.

The Insurance Reserve Fund 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. The Insurance Reserve Fund rates are actuarially determined.

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

Note 6. Economic Dependency

All of the Corp's funds are received from Treasury under its Hardest Hit Fund program.

SC HOUSING CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 7. Contingencies

The Corp, in the normal course of operations, receives federal funds from Treasury. The program is subject to audit by agents of Treasury. The purpose of the audits is to insure compliance with conditions precedent to the granting of funds. Any liability for reimbursement that may arise as the result of an audit of program funds is not believed to be material by the Corp's management.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

To the Board of Directors
SC Housing Corp.
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the SC Help fund of SC Housing Corp. (the "Corp"), a component unit of South Carolina State Housing Finance and Development Authority, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Corp's basic financial statements, and have issued our report thereon dated October 29, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Columbia, South Carolina
October 29, 2018

SC HOUSING CORP.
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

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

Section II - Financial Statement Findings

None reported