

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

**COLUMBIA, SOUTH CAROLINA**

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**AUDITED FINANCIAL STATEMENTS AND OTHER  
FINANCIAL INFORMATION**

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**YEAR ENDED JUNE 30, 2010**

*State of South Carolina*



*Office of the State Auditor*

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

RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

October 21, 2010

The Honorable Mark Sanford, 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, 2010, was issued by WebsterRogers, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

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

RHGjr/trb

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

COLUMBIA, SOUTH CAROLINA

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AUDITED FINANCIAL STATEMENTS AND OTHER  
FINANCIAL INFORMATION

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## 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, 2010, 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, 2010 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, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2010, on our consideration of the Authority's internal control over financial reporting 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 read in conjunction with this report 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.

A handwritten signature in blue ink that reads "Webster Rogers LLP". The signature is written in a cursive, flowing style.

Columbia, South Carolina  
October 20, 2010

# 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, 2010.

### Financial Highlights

- Net assets of the Authority's proprietary fund increased \$8,172,145 to \$315,896,472. This increase is primarily the result of the Authority's increased loan portfolio.
- The governmental fund net assets decreased \$3,261,884 to \$23,036,102. This decrease is primarily the result of a decrease in documentary stamp taxes received of \$307,443 during the fiscal year as well as the continued disbursement of award amounts approved in previous fiscal years.
- Federal grant revenue increased \$62,770,730 to \$184,793,712. All federal assistance received by the Authority during the current fiscal year was from the Department of Housing and Urban Development (HUD) and the United States Treasury. The increase in Federal assistance is due to an increase in activity in the Neighborhood Stabilization Program (NSP), the addition of the HUD Tax Credit Assistance Program (TCAP), and the US Treasury 1602 Tax Credit Exchange Program.
- The Authority made principal payments on mortgage revenue bonds of \$65,075,000 during the fiscal year, of that total \$52,705,000 were redeemed prior to their maturity. Like bonds of \$120,000,000 were issued by the Authority during the fiscal year.
- The Authority redeemed \$22,000,000 in notes payable.
- For the fiscal year ending June 30, 2010, the Authority purchased \$115,750,071 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 increased \$54,602,200 to \$819,384,582.

### Overview of the Financial Statements

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

- The first two statements are Authority-wide financial statements that provide information about the Authority's overall financial position and results. These statements, which are presented on an accrual basis, consist of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of

Activities regardless of when cash is received or paid. Most of the Authority's activities are business-type activities and are reported in proprietary funds.

- The remaining statements are fund financial statements of the Authority's proprietary funds which operate similar to business activities and for which the Authority follows an accrual basis of accounting and the governmental fund which is a special revenue fund.
- The basic financial statements also include a "Notes to Financial Statements" section that explains the information in the Authority-wide and fund financial statements. The notes also provide a more detailed explanation of data and significant accounting procedures and policies.

The remainder of this overview section explains the structure and contents of each of these statements. Prior year results referred to throughout this section are for comparison purposes only.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the Authority's most significant funds and not the Authority as a whole. The Authority has two kinds of funds:

**Governmental Funds-** Governmental funds finance the Authority's governmental functions including the disbursement of restricted monies. The Authority's governmental fund type is a special revenue fund. Expendable assets are assigned to the applicable governmental fund according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between assets and liabilities is fund balance.

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

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

**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 \$4,910,261. The following table summarizes the financial position for the Authority as of and for the years ended June 30, 2010 and 2009.

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Total current assets	\$ 11,533,020	\$ 14,459,140	\$ 135,198,579	\$ 145,286,450	\$ 146,731,599	\$ 159,745,590
Capital assets	-	-	882,583	568,331	882,583	568,331
Non-current assets	11,503,082	11,838,846	1,024,857,225	976,670,648	1,036,360,307	988,509,494
Total assets	<u>\$ 23,036,102</u>	<u>\$ 26,297,986</u>	<u>\$ 1,160,938,387</u>	<u>\$ 1,122,525,429</u>	<u>\$ 1,183,974,489</u>	<u>\$ 1,148,823,415</u>
Total current liabilities	\$ -	\$ -	\$ 68,994,596	\$ 89,719,905	\$ 68,994,596	\$ 89,719,905
Total long-term liabilities	-	-	776,047,319	725,081,197	776,047,319	725,081,197
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 845,041,915</u>	<u>\$ 814,801,102</u>	<u>\$ 845,041,915</u>	<u>\$ 814,801,102</u>
Net assets in capital assets	\$ -	\$ -	\$ 882,583	\$ 568,331	\$ 882,583	\$ 568,331
Net assets-restricted	23,036,102	26,297,986	270,566,520	261,491,133	293,602,622	287,789,119
Net assets-unrestricted	-	-	44,447,369	45,664,863	44,447,369	45,664,863
Total net assets	<u>\$ 23,036,102</u>	<u>\$ 26,297,986</u>	<u>\$ 315,896,472</u>	<u>\$ 307,724,327</u>	<u>\$ 338,932,574</u>	<u>\$ 334,022,313</u>

Net assets of the Authority's governmental funds decreased \$3,261,884 to \$23,036,102. 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 \$8,172,145 to \$315,896,472. 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 is 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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenue:						
Charges for Service	\$ -	\$ -	\$ 57,450,915	\$ 60,280,094	\$ 57,450,915	\$ 60,280,094
Program Investment and Other Income	235,441	361,769	3,730,280	5,826,822	3,965,721	6,188,591
Tax/Grant/Federal Revenues	6,210,644	6,518,087	184,809,861	122,132,284	191,020,505	128,650,371
Total Revenue	6,446,085	6,879,856	245,991,056	188,239,200	252,437,141	195,119,056
Expenses	9,307,969	15,298,672	238,218,911	180,805,410	247,526,880	196,104,082
Transfers between Funds	(400,000)	(400,000)	400,000	400,000	-	-
Increase (decrease) in Net Assets	<u>\$ (3,261,884)</u>	<u>\$ (8,818,816)</u>	<u>\$ 8,172,145</u>	<u>\$ 7,833,790</u>	<u>\$ 4,910,261</u>	<u>\$ (985,026)</u>

Revenues of the Authority's governmental activities were derived from a documentary stamp tax, interest payments on loans and investment income. All expenditures were disbursement of grant awards. Revenues of the Authority's business-type activities were primarily from federal program revenue (\$184,809,861), charges for services (\$57,450,915) and program investment and other income (\$3,730,280). 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 \$8,010,709 for the business-type activities. Net assets of the Authority increased from the previous year by \$4,748,825.

### **Debt Administration**

The Authority's total liabilities increased \$30,240,813 to \$845,041,915. Long-term liabilities increased \$50,966,122 to \$776,047,319. The long-term debt consists of bonds payable at \$775,324,582, other non-current liabilities at \$366,680 and accrued compensated absences in the amount of \$356,057.

### **Economic Factors**

The Authority's financial condition remained strong at June 30, 2010. The national economy is improving, but the recovery process has been slow. The economic downturn has caused an increase

in unemployment which in turn has resulted in higher loan delinquencies and foreclosures. However, the performance of the Authority's loan portfolio continues to exceed state and national averages. The Loan Servicing and Loss Mitigation staff continues to monitor the Authority's portfolio and works diligently to prevent foreclosure. Staff was realigned to dedicate positions to focus solely on home retention, and additional staff members were assigned to counsel borrowers specifically in early delinquency. Foreclosure staff continues to review files for alternatives to foreclosure up to thirty days prior to the sale. Staff will continue to maintain constant communication with borrowers in an effort to both protect Authority assets and help borrowers remain in their homes.

Given that a full economic recovery may not occur in the near term, 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, 2010

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Totals</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 9,717,775	\$ 26,193,805	\$ 35,911,580
Restricted assets:			
Cash and cash equivalents	-	69,919,752	69,919,752
Investments	-	9,496,319	9,496,319
Loans receivable, net of unamortized discounts	-	19,803,047	19,803,047
Accrued interest receivable:			
Loans	-	5,787,194	5,787,194
Deposits and investments	-	276,453	276,453
Accounts receivable:			
Due from grantor	-	1,478,424	1,478,424
Due from other State agency	1,258,119	-	1,258,119
Other	-	850,439	850,439
Loans receivable	486,113	255,805	741,918
Accrued interest receivable:			
Loans	71,013	92,927	163,940
Unamortized bond issuance costs	-	427,846	427,846
Other current assets	-	616,568	616,568
Total current assets	<u>11,533,020</u>	<u>135,198,579</u>	<u>146,731,599</u>
Non-current assets:			
Loans receivable, net of current portion and unamortized discounts	11,503,082	15,831,647	27,334,729
Restricted assets:			
Cash and cash equivalents	-	160,325,834	160,325,834
Loans receivable, net of current portion and unamortized discounts	-	842,971,683	842,971,683
Unamortized bond issuance costs	-	5,728,061	5,728,061
Capital assets, net of accumulated depreciation	-	882,583	882,583
Total noncurrent assets	<u>11,503,082</u>	<u>1,025,739,808</u>	<u>1,037,242,890</u>
Total assets	<u>23,036,102</u>	<u>1,160,938,387</u>	<u>1,183,974,489</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2010  
(CONTINUED)

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Totals</b>
<b>Liabilities</b>			
Current liabilities:			
Liabilities payable from restricted assets:			
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	\$ -	\$ 44,060,000	\$ 44,060,000
Accrued interest payable on bonds	-	18,221,128	18,221,128
Other liabilities	-	42,020	42,020
Mortgage escrows	-	4,959,710	4,959,710
Total liabilities payable from restricted current assets	-	67,282,858	67,282,858
Accrued compensated absences	-	352,514	352,514
Accrued salaries and related payroll expenses	-	486,458	486,458
Due to grantor	-	75,719	75,719
Other liabilities	-	797,047	797,047
Total current liabilities	-	68,994,596	68,994,596
Non-current liabilities:			
Accrued compensated absences, net of current portion	-	356,057	356,057
Bonds payable, net of current portion of unamortized premiums and discounts and deferred losses on refundings	-	775,324,582	775,324,582
Other non-current liabilities	-	366,680	366,680
Total noncurrent liabilities	-	776,047,319	776,047,319
Total liabilities	-	845,041,915	845,041,915
Commitments and contingencies ( <i>Note 15</i> )			
<b>Net Assets</b>			
Invested in capital assets	-	882,583	882,583
Restricted for:			
Debt service	-	43,730,000	43,730,000
Bond reserves	-	10,831,386	10,831,386
Special programs	23,036,102	216,005,134	239,041,236
Unrestricted	-	44,447,369	44,447,369
Total net assets	<u>\$ 23,036,102</u>	<u>\$ 315,896,472</u>	<u>\$ 338,932,574</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

	<u>Program Revenue</u>			<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>Functions/Programs</b>						
Governmental activities:						
Housing Trust Fund	\$ 9,307,969	\$ -	\$ 235,441	\$ (9,072,528)	\$ -	\$ (9,072,528)
Total governmental activities	<u>9,307,969</u>	<u>-</u>	<u>235,441</u>	<u>(9,072,528)</u>	<u>-</u>	<u>(9,072,528)</u>
Business-type activities:						
Administrative	11,307,953	11,762,369	-	-	454,416	454,416
Single Family Mortgage Loan Programs	39,097,179	45,512,265	3,730,280	-	10,145,366	10,145,366
Federal Programs	186,558,971	-	184,793,712	-	(1,765,259)	(1,765,259)
Program Fund Programs	1,254,808	176,281	16,149	-	(1,062,378)	(1,062,378)
Total business-type activities	<u>238,218,911</u>	<u>57,450,915</u>	<u>188,540,141</u>	<u>-</u>	<u>7,772,145</u>	<u>7,772,145</u>
Total functions/programs	<u>\$ 247,526,880</u>	<u>\$ 57,450,915</u>	<u>\$ 188,775,582</u>	<u>(9,072,528)</u>	<u>7,772,145</u>	<u>(1,300,383)</u>
General revenue:						
Documentary stamp taxes				6,210,644	-	6,210,644
Transfers between activities				(400,000)	400,000	-
Total general revenue and transfers				<u>5,810,644</u>	<u>400,000</u>	<u>6,210,644</u>
Change in net assets				(3,261,884)	8,172,145	4,910,261
Net assets, at beginning of year				<u>26,297,986</u>	<u>307,724,327</u>	<u>334,022,313</u>
Net assets, at end of year				<u>\$ 23,036,102</u>	<u>\$ 315,896,472</u>	<u>\$ 338,932,574</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2010

	<b>Housing Trust Fund</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 9,717,775
Accounts receivable:	
Due from other State agency	1,258,119
Loans receivable	486,113
Accrued interest receivable:	
Loans	71,013
Total current assets	11,533,020
Non-current assets:	
Loans receivable, net of current portion	11,503,082
Total non-current assets	11,503,082
Total assets	\$ 23,036,102
<b>Liabilities and Fund Balance</b>	
Commitments and contingencies ( <i>Note 15</i> )	
Fund balance:	
Reserved for non-current loans	11,503,082
Unreserved, desinated for housing projects, reported in:	
Special revenue fund	11,533,020
Total fund balance	23,036,102
Total liabilities and fund balance	\$ 23,036,102

*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, 2010

	<b>Housing Trust Fund</b>
<b>Revenue</b>	
Documentary stamp taxes	\$ 6,210,644
Interest on loans	222,212
Interest on deposits and investments	13,229
Total revenue	6,446,085
<b>Expenditures:</b>	
Grants for housing trust programs	9,307,969
Total expenditures	9,307,969
Deficit of revenue under expenditures	(2,861,884)
<b>Other Financing Sources (Uses)</b>	
Transfer to other funds	(400,000)
Total other financing sources (uses)	(400,000)
Net change in fund balance	(3,261,884)
Fund balance, at beginning of year	26,297,986
Fund balance, at end of year	\$ 23,036,102

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2010

	General Operating	Single Family Finance Programs	Program	Eliminations	Totals
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 12,886,993	\$ -	\$ 13,306,812	\$ -	\$ 26,193,805
Restricted assets:					
Cash and cash equivalents	7,638,624	62,281,128	-	-	69,919,752
Investments	-	9,496,319	-	-	9,496,319
Loans receivable, net of unamortized discounts	2,113,885	17,689,162	-	-	19,803,047
Accrued interest receivable:					
Loans	252,235	5,534,959	-	-	5,787,194
Deposits and investments	-	276,453	-	-	276,453
Accounts receivable:					
Due from grantor	1,478,424	-	-	-	1,478,424
Other	850,439	-	-	-	850,439
Due from other funds	1,077,330	12,002	-	(1,089,332)	-
Loans receivable	158,378	-	97,427	-	255,805
Accrued interest receivable:					
Loans	41,248	-	51,679	-	92,927
Unamortized bond issuance costs	-	427,846	-	-	427,846
Other current assets	616,568	-	-	-	616,568
Total current assets	<u>27,114,124</u>	<u>95,717,869</u>	<u>13,455,918</u>	<u>(1,089,332)</u>	<u>135,198,579</u>
Non-current assets:					
Loans receivable, net of current portion and unamortized discounts	6,889,922	-	8,941,725	-	15,831,647
Restricted assets:					
Cash and cash equivalents	-	160,325,834	-	-	160,325,834
Loans receivable, net of current portion and unamortized discounts	60,168,282	782,803,401	-	-	842,971,683
Unamortized bond issuance costs	-	5,728,061	-	-	5,728,061
Capital assets, net of accumulated depreciation	882,583	-	-	-	882,583
Total noncurrent assets	<u>67,940,787</u>	<u>948,857,296</u>	<u>8,941,725</u>	<u>-</u>	<u>1,025,739,808</u>
Total assets	<u>95,054,911</u>	<u>1,044,575,165</u>	<u>22,397,643</u>	<u>(1,089,332)</u>	<u>1,160,938,387</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2010  
(CONTINUED)

	General Operating	Single Family Finance Programs	Program	Eliminations	Totals
<b>Liabilities</b>					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable	\$ -	\$ 44,060,000	\$ -	\$ -	\$ 44,060,000
Accrued interest payable on bonds	-	18,221,128	-	-	18,221,128
Other liabilities	42,020	-	-	-	42,020
Mortgage escrows	4,959,710	-	-	-	4,959,710
Total liabilities payable from restricted assets	5,001,730	62,281,128	-	-	67,282,858
Accrued compensated absences	352,514	-	-	-	352,514
Accrued salaries and related payroll expenses	486,458	-	-	-	486,458
Due to other funds	12,002	1,077,330	-	(1,089,332)	-
Due to grantor	75,719	-	-	-	75,719
Other liabilities	726,169	69,246	1,632	-	797,047
Total current liabilities	6,654,592	63,427,704	1,632	(1,089,332)	68,994,596
Non-current liabilities:					
Accrued compensated absences, net of current portion	356,057	-	-	-	356,057
Bonds payable, net of current portion of unamortized premiums and discounts and deferred losses on refundings	-	775,324,582	-	-	775,324,582
Other non-current liabilities	-	366,680	-	-	366,680
Total noncurrent liabilities	356,057	775,691,262	-	-	776,047,319
Total liabilities	7,010,649	839,118,966	1,632	(1,089,332)	845,041,915
Commitments and contingencies (Note 15)					
<b>Net Assets</b>					
Invested in capital assets	882,583	-	-	-	882,583
Restricted for:					
Debt service	-	43,730,000	-	-	43,730,000
Bond reserves	-	10,831,386	-	-	10,831,386
Special programs	65,110,321	150,894,813	-	-	216,005,134
Unrestricted	22,051,358	-	22,396,011	-	44,447,369
Total net assets	\$ 88,044,262	\$ 205,456,199	\$ 22,396,011	\$ -	\$ 315,896,472

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, 2010

	General Operating	Single Family Finance Programs	Program	Eliminations	Totals
<b>Operating Revenue</b>					
Interest and other charges on loans	\$ 2,215,389	\$ 45,512,265	\$ 173,081	\$ -	\$ 47,900,735
Interest on deposits and investments	6,584	2,987,015	16,149	-	3,009,748
Administrative fees and other	11,245,907	743,265	3,200	(1,705,511)	10,286,861
Total operating revenue	<u>13,467,880</u>	<u>49,242,545</u>	<u>192,430</u>	<u>(1,705,511)</u>	<u>61,197,344</u>
<b>Operating Expenses</b>					
Bond interest	-	37,257,843	-	-	37,257,843
Program services	-	2,267,731	27,513	(1,705,511)	589,733
General and administrative	11,187,985	-	-	-	11,187,985
Bond issuance cost amortization	-	475,616	-	-	475,616
Depreciation of capital assets	119,968	-	-	-	119,968
Other expenses	-	801,500	-	-	801,500
Total operating expenses	<u>11,307,953</u>	<u>40,802,690</u>	<u>27,513</u>	<u>(1,705,511)</u>	<u>50,432,645</u>
<b>Operating Income</b>	<u>2,159,927</u>	<u>8,439,855</u>	<u>164,917</u>	<u>-</u>	<u>10,764,699</u>
<b>Non-Operating Revenue (Expenses)</b>					
Federal grant and contract revenue	184,793,712	-	-	-	184,793,712
Housing assistance payments and grant awards disbursed	(186,558,971)	-	(1,227,295)	-	(187,786,266)
Total nonoperating revenue (expenses)	<u>(1,765,259)</u>	<u>-</u>	<u>(1,227,295)</u>	<u>-</u>	<u>(2,992,554)</u>
<b>Income (Loss) Before Transfers</b>	<u>394,668</u>	<u>8,439,855</u>	<u>(1,062,378)</u>	<u>-</u>	<u>7,772,145</u>
<b>Transfers</b>					
Transfers in	494,515	11,376,227	-	(11,470,742)	400,000
Transfers out	-	(11,470,742)	-	11,470,742	-
Total transfers	<u>494,515</u>	<u>(94,515)</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
Increase (decrease) in net assets	889,183	8,345,340	(1,062,378)	-	8,172,145
Net assets, at beginning of year	87,155,079	197,110,859	23,458,389	-	307,724,327
Net assets, at end of year	<u>\$ 88,044,262</u>	<u>\$ 205,456,199</u>	<u>\$ 22,396,011</u>	<u>\$ -</u>	<u>\$ 315,896,472</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2010

	General Operating	Single Family Finance Programs	Program	Totals
<b>Cash Flows From Operating Activities</b>				
Receipt of loan principal payments	\$ 13,962,014	\$ 103,980,070	\$ 3,215,249	\$ 121,157,333
Receipt of loan interest payments	2,082,650	45,441,716	145,650	47,670,016
Purchase/origination of new loans	(12,230,911)	(100,193,323)	(3,325,837)	(115,750,071)
Other receipts	10,871,784	141,124	3,200	11,016,108
Payments to employees	(8,081,637)	-	-	(8,081,637)
Payments to vendors	(3,216,715)	(2,982,263)	(227,032)	(6,426,010)
Net cash flows provided (used) for operating activities	<u>3,387,185</u>	<u>46,387,324</u>	<u>(188,770)</u>	<u>49,585,739</u>
<b>Cash Flows from Capital Financing Activities</b>				
Purchase of equipment	(434,220)	-	-	(434,220)
Net cash flows provided (used) for operating activities	<u>(434,220)</u>	<u>-</u>	<u>-</u>	<u>(434,220)</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Transfers from other programs	494,515	11,376,227	-	11,870,742
Transfers to other programs	-	(11,470,742)	-	(11,470,742)
Loans from (to) other programs	(876,387)	876,974	(587)	-
Receipts from HUD	184,793,712	-	-	184,793,712
Payments of housing assistance and grants	(186,558,971)	-	(1,227,295)	(187,786,266)
Proceeds from sale of bonds	-	120,000,000	-	120,000,000
Principal payments on bonds payable	-	(65,075,000)	-	(65,075,000)
Principal payments on notes	-	(22,000,000)	-	(22,000,000)
Interest payments on bonds payable	-	(39,244,717)	-	(39,244,717)
Payment on bond issuance costs	-	(440,676)	-	(440,676)
Net cash provided (used) for noncapital activities	<u>(2,147,131)</u>	<u>(5,977,934)</u>	<u>(1,227,882)</u>	<u>(9,352,947)</u>
<b>Cash Flows from Investing Activities</b>				
Purchase of investments	-	(9,496,319)	-	(9,496,319)
Sale of investments	-	1,733,220	-	1,733,220
Income on deposits and investments	6,584	3,122,718	16,272	3,145,574
Cash flows from investing activities	<u>6,584</u>	<u>(4,640,381)</u>	<u>16,272</u>	<u>(4,617,525)</u>
Net increase (decrease) in cash and cash equivalents	812,418	35,769,009	(1,400,380)	35,181,047
Cash and cash equivalents, beginning of year	<u>19,713,199</u>	<u>186,837,953</u>	<u>14,707,192</u>	<u>221,258,344</u>
Cash and cash equivalents, end of year	<u>\$ 20,525,617</u>	<u>\$ 222,606,962</u>	<u>\$ 13,306,812</u>	<u>\$ 256,439,391</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2010

	General Operating	Single Family Finance Programs	Program	Totals
<b>Reconciliation of Operating Income to Net Cash Flows Provided by (used in) Operating Activities:</b>				
Operating income (loss)	\$ 2,159,927	\$ 8,439,855	\$ 164,917	\$ 10,764,699
Adjustments to reconcile operating income (loss) to net cash flows provided by (used in) operating activities:				
Depreciation	119,968	-	-	119,968
Bond premium amortization	-	(602,142)	-	(602,142)
Bond discount amortization	-	60,431	-	60,431
Bond early ext amortization	-	218,911	-	218,911
Bond issuance cost amortization	-	475,616	-	475,616
Bonds interest expense reclassified to noncapital financing activities	-	37,257,843	-	37,257,843
Income on deposits and investments reclassified to investing activities	(6,584)	(2,987,015)	(16,149)	(3,009,748)
Receipt of loan principal payments	13,962,014	103,980,070	3,215,249	121,157,333
Purchase/origination of new loans	(12,230,911)	(100,193,323)	(3,325,837)	(115,750,071)
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(374,122)	-	-	(374,122)
Increase (decrease) in accounts payable, accrued expenses and due to grantor	(432,918)	(192,374)	(199,519)	(824,811)
Increase (decrease) in mortgage escrows	(27,312)	-	-	(27,312)
Increase (decrease) in other liabilities	349,862	-	-	349,862
(Increase) decrease in accrued interest receivable-loans	(132,739)	(70,548)	(27,431)	(230,718)
Total adjustments	<u>1,227,258</u>	<u>37,947,469</u>	<u>(353,687)</u>	<u>38,821,040</u>
Net cash provided by (used in) operating activities	<u>\$ 3,387,185</u>	<u>\$ 46,387,324</u>	<u>\$ (188,770)</u>	<u>\$ 49,585,739</u>

**Supplemental Information  
Operating Activities**

a. Included in operating income is interest and other charges collected on loans receivable.

General Operating Fund	\$ 2,215,389
Single Family Finance Programs Fund	45,512,265
Program Fund	173,081
Total	<u>\$ 47,900,735</u>

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2010  
(CONTINUED)

**Noncash Noncapital Financing Activities**

- a. Interest payments on bonds do not include \$60,431 amortization of bond discounts and \$218,911 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.

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

**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

-CONTINUED-

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

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

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the Authority (a primary entity). The Authority has no significant component units.

A primary 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 primary 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 primary 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 primary 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 primary 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. The financial statements report the activity of the Authority.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

Additionally, the Authority has also issued conduit debt (bonds and notes), which are insured, secured and/or guaranteed such that the Authority has no liability (see *Note 11*). These bonds and notes are identical to industrial development bonds. Original issue amounts and the related investments are not included in the financial statements of the Authority.

**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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**1.B.1 Governmental Funds**

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

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

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

**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

-CONTINUED-

**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. In January 2010, \$120,000,000 in Escrow Bonds were issued and subsequently purchased by the United States Treasury as a part of the New Issue Bond Program (NIBP) The Treasury purchased bonds held in escrow in order to allow the Authority to fix the majority of long term interest rates on bonds issued under this program. The program requires the Authority to issue Market Bonds simultaneously with the release of program bonds at the ratio of 60% Escrow or Program Bonds and 40% Market Bonds. The three Indentures generate income to cover the costs of administration and debt service on the bonds. Excess funds as determined by cash flow analysis and certification may be transferred to the other programs at the discretion of the Authority.

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

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

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

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

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

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

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

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

Nonexchange transactions involving financial or capital resources are transactions in which the Authority either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The types of nonexchange transactions that the Authority engages in are "voluntary nonexchange transactions" related to certain grants and contracts.

Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

1. The recipient has the characteristics specified by the provider.
2. The recipient has met the time requirements specified by the provider (i.e. the period when the resources are required to be used or the period when use is first permitted has begun or the resources are being maintained intact, as specified by the enabling legislation or provider).

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

3. The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.
4. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

**1.F 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.

**1.G 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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.

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.H 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 including certificates of deposit, cash invested in various instruments by the State Treasurer (as part of the State's internal cash management pool) 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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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. 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 accumulated income 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.

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NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**1.I Investments**

Investments 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.

**1.J Loans Receivable**

Loans receivable consist of mortgage loans, which are carried at par. Discounts on loans, if any, are deferred and amortized using the sum-of-the-years digit method over the estimated life of ten years for single family loans and are included in interest income. Most mortgage loans in the Single Family Finance Program Fund, as well as, the single family mortgage loans of approximately \$69.3 million in the General Operating Fund are insured with various mortgage insurance carriers at specified percentages of the original loan amount varying from 25% to 100%. However, once the loan to property value ratio falls below 80%, borrowers have the right to cancel the mortgage insurance if certain conditions have been met as provided by federal law and/or the insurance carrier. As required by the Homeowners Protection Act, mortgage insurance is automatically cancelled when the original loan to value ratio reaches 79%. In the past the Authority considered the mortgaged property as adequate collateral against significant potential loan losses for such uninsured properties. However, declines in property values have occurred in some areas of South Carolina that may result in losses higher than experienced in the past. The Authority does not anticipate that the increase in losses will place undue stress on the Authority's financial position. Many of the private mortgage insurers continued to experience rating downgrades during the current fiscal year. As a result, since March 2009, the Authority discontinued originating mortgage loans with private mortgage insurance and will not resume such loans until these insurers see significant rating upgrades or until the Authority is in a position to securitize those loans through 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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

Fund and a portion of the loans in the General Operating Fund are not single family mortgage loans and are not insured. The Authority considers the mortgaged property as adequate collateral against significant potential losses for such uninsured properties.

**1.K Capital Assets**

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

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

**1.L 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.M 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

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NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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.N 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, 2010, reported as other liabilities for business-type activities is an arbitrage rebate liability of \$366,680 associated with the Authority's Mortgage Revenue Bonds Outstanding. The Authority paid \$212,301 in arbitrage expenses for the year ended June 30, 2010.

**1.O 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**1.P 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 not meeting this definition are reported as nonoperating revenues and expenses.

**1.Q Net Assets**

Net assets are classified and presented in three 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.

Restricted assets – Restricted assets 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.

Unrestricted assets - All assets that do not meet the definition of "restricted" or "invested in capital assets" are classified as unrestricted.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and thereafter unrestricted resources as needed.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**1.R Use of Estimates**

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

**2. Deposits and Investments**

**2.A Deposits**

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

At June 30, 2010, the Authority's bank deposits had a carrying amount of \$222,669,334 and a bank balance of \$223,749,276. \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the dedicated method.

<p>Cash and cash equivalents:</p> <p style="padding-left: 20px;">Unrestricted                   \$    35,911,580</p> <p style="padding-left: 20px;">Restricted                        69,919,752</p> <p>Investments:</p> <p style="padding-left: 20px;">Restricted                        9,496,319</p> <p>Non-current assets:</p> <p style="padding-left: 20px;">Cash and cash equivalents:</p> <p style="padding-left: 40px;">Restricted                        <u>160,325,834</u></p> <p>Total                                <u>\$   275,653,485</u></p>	<p style="text-align: right;">Deposits held by State</p> <p style="padding-left: 20px;">Treasurer                     \$    43,487,832</p> <p style="padding-left: 20px;">Other deposits                 <u>222,669,334</u></p> <p style="padding-left: 20px;">Total deposits                 <u>266,157,166</u></p> <p>Investments:</p> <p style="padding-left: 20px;">Treasurer                     -</p> <p style="padding-left: 20px;">Other investments             <u>9,496,319</u></p> <p style="padding-left: 20px;">Total investments             <u>9,496,319</u></p> <p>Total                                <u>\$   275,653,485</u></p>
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SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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

**2.B Deposits Held by State Treasurer**

State law requires full collateralization of all deposits and investments of the State funds. The depository institution must correct any deficiencies in collateral within seven days. With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

**2.C Investments**

At June 30, 2010, the Authority's investment balances were as follows:

	<b>Fair Value</b>	<b>Less Than 1 Year</b>	<b>Greater Than 1 Year</b>
Government National Mortgage Association insured Mortgage Backed Securities	\$ 9,496,319	\$ 9,469,319	\$ -
<b>Totals</b>	<b>\$ 9,496,319</b>	<b>\$ 9,469,319</b>	<b>\$ -</b>

**2.D Investment Risk Factors**

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

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

Interest rate risk is the risk that the value of fixed income securities will decline because of changes in interest rates. As a means of limiting its exposure to interest rate risk, the revenue funds for 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.

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NOTES TO FINANCIAL STATEMENTS

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

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

For a deposit, the custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits, investments, or collateral securities held by an outside party. As of June 30, 2010, the Authority had \$315,744 held by the Trustee as cash, which will be used as part of the debt service payment scheduled for July 1, 2010. As of June 30, 2010, the Authority had investments of \$9,496,319 in Government National Mortgage Association insured mortgage backed securities held by the Trustee. The Authority has no policy on custodial credit risk.

**2.D.3 Credit Risk**

The Authority follows Section 11-9-660 of the South Carolina Code of Laws regarding credit risk. The Authority places a portion of its funds on deposit in the State Treasurer's Investment Pool. Although the Pool itself is unrated, it is invested according to the requirements of State law, which allows only limited investments in instruments subject to credit risk. State law further requires that investments in obligations of corporations and in state or political subdivisions of the United States have an investment grade rating from at least two nationally recognized rating agencies. The Authority has limits established in agreement with its rating agency as to the amount that can be deposited in the State Treasurer's Investment Pool at any given time. 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. See *Note 15* for additional information.

**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: *US Treasury Bills 55%, Guaranteed Investment Contracts 12%, and Tri-Party Repo's 26.4%*. 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.

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NOTES TO FINANCIAL STATEMENTS

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

**2.E Restricted Deposits and Investments**

Under provisions of applicable debt indentures, the Authority is required to restrict sufficient assets with an independent trustee (The Bank of New York) in the Single Family Program Fund to meet reserve requirements 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, 2010 are as follows:

	<b>Reserve Requirements</b>	<b>Actual Funding</b>	<b>Over (Short)</b>
Single Family Mortgage Reserve Funds-1998	\$ 3,048,750	\$ 3,209,250	\$ 160,500
Mortgage Revenue Indenture Reserve Funds	5,725,050	7,622,136	1,897,086
Totals	\$ 8,773,800	\$ 10,831,386	\$ 2,057,586

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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**3. Loans Receivable**

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

**Governmental Funds**

Housing Trust Fund notes maturing on various dates 2013-2039 plus interest ranging from 1%-5.5% per annum payable in monthly installments of principal and interest, as provided in the notes.

\$ 11,989,195

Total governmental funds

\$ 11,989,195

**Proprietary Funds**

General Operating Fund notes maturing in various dates from 2013-2038 plus interest ranging from 3.0%-12.25% per annum, payable in installments of principal and interest as provided in the notes.

\$ 69,330,467

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. Reported net of Allowance for doubtful accounts of \$289,824.

9,039,152

Single Family Finance Programs notes maturing on dates from 2010-2039 plus interest ranging from 4%-8.5% per annum, payable in monthly installments of principal and interest.

800,492,563

Total proprietary funds

\$ 878,862,182

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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**4. Capital Assets**

Capital asset activity for the year ended June 30, 2010 was as follows:

	<b>Beginning Balances July 1, 2009</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances June 30, 2010</b>
Equipment and furniture	\$ 1,229,355	\$ 434,220	\$ -	\$ 1,663,575
Accumulated depreciation	(661,024)	(119,968)	-	(780,992)
Capital assets, net of accumulated depreciation	<u>\$ 568,331</u>	<u>\$ 314,252</u>	<u>\$ -</u>	<u>\$ 882,583</u>

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

Long-term liabilities activity for the year ended June 30, 2010 was as follows:

	<b>Beginning Balances July 1, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balances June 30, 2010</b>	<b>Due within One Year</b>
Bonds payable	\$ 756,915,000	\$ 120,000,000	\$ 65,075,000	\$ 811,840,000	\$ 43,730,000
Unamortized premiums and discounts	9,866,933	-	541,711	9,325,222	550,000
Deferred amount on refunding	(1,999,551)	-	(218,911)	(1,780,640)	(220,000)
Total bonds payable	<u>764,782,382</u>	<u>120,000,000</u>	<u>65,397,800</u>	<u>819,384,582</u>	<u>44,060,000</u>
Notes Payable	22,000,000	-	22,000,000	-	-
Accrued arbitrage	578,981	-	212,301	366,680	-
Accrued compensated absences	822,291	231,886	345,606	708,571	352,514
Totals	<u>\$ 788,183,654</u>	<u>\$ 120,231,886</u>	<u>\$ 87,955,707</u>	<u>\$ 820,459,833</u>	<u>\$ 44,412,514</u>

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NOTES TO FINANCIAL STATEMENTS

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**6. Bonds Payable**

At June 30, 2010, bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refunding of debt, consisted of the following:

	Date Issued	Issue Amount	Outstanding Balance
Single Family Mortgage Revenue Bonds 1998 (5.00% to 5.5%) due 2014-2035	09/11/98	\$ 106,975,000	\$ 101,625,000
Plus: Unamortized premium			954,351
			102,579,351
Mortgage Revenue Bonds			
1997A (5.40% to 5.95%) due 2010-2029	06/01/97	30,000,000	9,515,000
1999A (4.70% to 5.40%) due 2010-2031	12/23/98	37,700,000	9,025,000
1999B (5.20% to 8.30%) due 2010-2031	11/01/99	139,910,000	29,895,000
2000A (5.875% to 6.40%) due 2010-2031	06/01/00	121,435,000	25,680,000
2001A (4.60% to 5.50%) due 2010-2033	08/01/01	63,455,000	27,960,000
2002A (3.50% to 4.95%) due 2010-2034	10/16/02	40,000,000	21,730,000
2003A (3.90% to 5.45%) due 2010-2034	09/10/03	50,000,000	28,100,000
2004A (3.80% to 5.50%) due 2010-2035	07/01/04	100,000,000	71,420,000
2005A (3.25% to 5.00%) due 2010-2036	06/15/05	81,720,000	64,090,000
2006A/B (3.75% to 5.75%) due 2010-2037	06/30/06	98,000,000	84,525,000
2006C (3.55% to 5.50%) due 2010-2037	12/19/06	83,540,000	75,875,000
2007A (3.95% to 5.55%) due 2010-2038	09/11/07	83,000,000	78,830,000
2008A (2.85% to 6.00%) due 2010-2039	06/04/08	20,000,000	19,120,000
2008B (3.65% to 6.00%) due 2010-2039	08/28/08	45,215,000	44,450,000
			590,215,000
Plus: Unamortized premium			8,526,257
Less: Unamortized discounts			(155,386)
Unamortized deferred losses on refundings of debt			(1,780,640)
			596,805,231
Homeownership Revenue Bonds 2009-1 Escrow Bonds due 2041	01/12/10	120,000,000	120,000,000
Total bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			\$ 819,384,582

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NOTES TO FINANCIAL STATEMENTS

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**6. Bonds Payable (Continued)**

Amounts, including interest, required to complete payment of the bond obligations as of June 30, 2010 are as follows:

Year Ending June 30,	Principal	Interest	Totals
2011	\$ 43,730,000	\$ 35,450,987	\$ 79,180,987
2012	12,590,000	34,030,513	46,620,513
2013	12,875,000	33,430,780	46,305,780
2014	12,790,000	32,802,341	45,592,341
2015	16,340,000	32,081,962	48,421,962
2016-2020	100,560,000	146,168,290	246,728,290
2021-2025	135,930,000	113,578,204	249,508,204
2026-2030	135,945,000	77,895,529	213,840,529
2031-2035	159,045,000	38,923,732	197,968,732
2036-3040	62,035,000	6,017,583	68,052,583
2041	120,000,000	-	120,000,000
Total	<u>\$ 811,840,000</u>	<u>\$ 550,379,921</u>	<u>\$ 1,362,219,921</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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**6. Bonds Payable (Continued)**

The Authority has the option to redeem most of its bonds prior to maturity on any interest payment date, or on the first of any month, as specified under each bond issue, plus accrued interest to the date of redemption. Below is a listing of the Single Family Finance Program bonds the Authority redeemed prior to their maturity during the year ended June 30, 2010:

Single Family Finance Programs:

Mortgage Revenue Bonds

Series 1994 A	\$ 2,315,000
Series 1995 A	3,120,000
Series 1996 A	4,770,000
Series 1997 A	710,000
Series 1999 A and B	7,745,000
Series 2000 A	2,075,000
Series 2001 A	2,130,000
Series 2002 A	1,265,000
Series 2003 A	3,210,000
Series 2004 A	5,560,000
Series 2005 A	6,690,000
Series 2006 A and B	9,885,000
Series 2007 A	2,165,000
Series 2008 A and B	1,065,000
Total	<u>\$ 52,705,000</u>

Amortization of bond discounts for the year ended June 30, 2010 that were included in bond interest expense in the Single Family Finance Programs Fund was \$60,431.

Bond premium amortized for the year ended June 30, 2010 and attributable to the Single Family Finance Programs Fund bonds totaled \$602,142 and was reported as other revenue in the fund.

Amortization of deferred losses on refundings of debt of \$218,911 for the year ended June 30, 2010 and attributable to the Single Family Finance Programs Fund bonds was included in bond interest expense in the proprietary fund.

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NOTES TO FINANCIAL STATEMENTS

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**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 various fiscal years from 2010 through 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>	
2011	\$ 324,107
2012	329,484
2013	333,727
2014	329,350
2015	338,800
2016	349,347
2017	<u>117,600</u>
Total leases with external entities	<u>\$ 2,122,415</u>

The Authority incurred rental expense of approximately \$320,653 under the aforementioned leases for the fiscal year ended June 30, 2010.

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 \$155,645 in fiscal year 2010.

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
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NOTES TO FINANCIAL STATEMENTS

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**7. Leases (Continued)**

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 \$40,692 was expended under these leases during the fiscal year ended June 30, 2010.

**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.
- 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 2010 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:

- \$94,515 from the Single Family Finance Program to the General Operating Fund to fund loan servicing release premiums.
- \$400,000 from the Housing Trust Fund to the General Operating Fund to

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NOTES TO FINANCIAL STATEMENTS

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**9. Fund Transfers (Continued)**

fund administrative and operational expenses.

- \$3,213,488 from the Single Family segment to the Mortgage Revenue segment to fund debt service.
- \$390,400 from the Single Family segment to the Homeownership Bond segment to fund the cost of issuance for bonds.
- \$7,772,339 from the Single Family segment to the Revenue Reserve segment to fund the purchase of loans.

**10. Risk Management**

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

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

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

Employees elect health coverage through either a health maintenance organization

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**10. Risk Management (Continued)**

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.

**11. Conduit Debt**

From time to time, the Authority has issued bonds to provide mortgages for the citizens of South Carolina, for multifamily housing. As explained in *Note 1*, these bonds are special limited obligations of the Authority, payable solely from and secured by mortgages to be received from mortgage loans with various mortgagees. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or the State, and accordingly, have not been reported in the accompanying financial statements.

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**11. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 1989 (88/89)</b>			
07/88	Multifamily Housing Revenue Bonds (Paces Landing Series 1988)	\$ 8,750,000	\$ 8,750,000
<b>Fiscal Year 2000 (99/00)</b>			
07/99	Multifamily Housing Revenue Bonds (CTS Rock Hill Project)	9,145,000	9,145,000
<b>Fiscal Year 2001 (00/01)</b>			
10/00	Multifamily Rental Housing Revenue Bonds (City Heights Apts.)	5,620,000	5,620,000
10/00	Multifamily Rental Housing Revenue Bonds (Spartanburg Terrace Apts.)	3,920,000	3,920,000
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	11,130,000
06/01	Multifamily Housing Revenue Bonds (Fairway Apts. Project)	7,735,000	7,735,000
06/01	Multifamily Rental Housing Revenue Refunding Bonds (Martin's Creek Project)	7,300,000	7,300,000
<b>Fiscal Year 2002 (01/02)</b>			
12/01	Multifamily Rental Housing Revenue Bonds (Cedarwood Apartments-Columbia, SC)	8,750,000	7,850,000
12/01	Multifamily Rental Housing Revenue Bonds (Belton Woods Apts.)	5,795,000	4,770,000
<b>Fiscal Year 2003 (02/03)</b>			
11/02	Multifamily Guaranteed Mortgage Revenue Bonds (CTS Parklane)	12,050,000	12,050,000
12/02	Multifamily Rental Housing Revenue Bonds (Poplar Square Apartments)	2,960,000	2,404,734
12/02	Multifamily Rental Housing Revenue Bonds (Spring Grove Apartments Project)	7,410,000	7,030,000

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**11. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Out standing</b>
<b>Fiscal Year 2004 (03/04)</b>			
04/04	Multifamily Rental Housing Revenue Bonds (Beverly Apartments Project)	\$ 3,010,000	\$ 2,880,000
04/04	Multifamily Rental Housing Revenue Bonds (Hillandale Apartments Project)	6,660,000	6,020,000
06/04	Multifamily Rental Housing Revenue Bonds (Greenville Arms Apartments Project)	4,265,000	4,085,000
06/04	Multifamily Rental Housing Revenue Bonds (Canebreak Apartments Project)	4,500,000	4,311,812
<b>Fiscal Year 2005 (04/05)</b>			
07/04	Multifamily Rental Housing Revenue Bonds (Bayside Apartments Project)	17,250,000	17,250,000
12/04	Multifamily Rental Housing Revenue Bonds (Wyndham Pointe Apartments Project)	9,400,000	9,400,000
12/04	Multifamily Rental Housing Revenue Bonds (Planters Retreat Apartments Project)	11,850,000	10,790,479
05/05	Multifamily Rental Housing Revenue Bonds (Wenmont Apartments Project)	6,210,000	6,059,553
<b>Fiscal Year 2006 (05/06)</b>			
09/05	Multifamily Rental Housing Revenue Bonds (Hallmark Homes Apartments Project)	12,840,000	12,840,000
09/05	Multifamily Rental Housing Revenue Bonds (Appian Way Apartments Project)	11,500,000	10,000,000
09/05	Multifamily Rental Housing Revenue Bonds (Cross Creek Apartments Project)	8,850,000	8,726,800
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	12,520,000
04/06	Multifamily Rental Housing Revenue Bonds (Towers East Apartments Project)	11,500,000	11,240,000
06/06	Multifamily Rental Housing Revenue Bonds (Spanish Trace Apartments Project)	3,685,000	3,605,000

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**11. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
	<b>Fiscal Year 2008 (07/08)</b>		
01/08	Multifamily Rental Housing Revenue Bonds (Bridle Ridge Apartments)	\$ 7,885,000	\$ 7,885,000
	<b>Fiscal Year 2009 (08/09)</b>		
11/08	Multifamily Rental Housing Revenue Bonds (Franklin Square Apartments)	9,800,000	9,800,000
12/08	Multifamily Rental Housing Revenue Bonds (Various Rural Housing Projects)	15,402,000	15,402,000
12/08	Multifamily Rental Housing Revenue Bonds (Brookside Crossing)	9,900,000	9,900,000
	<b>Fiscal Year 2010 (09/10)</b>		
09/09	Multifamily Rental Housing Revenue Bonds (Various Rural Housing Projects)	33,805,000	25,505,000
12/09	Multifamily Rental Housing Revenue Bonds (Crossroads Apartments)	2,150,000	363,057
Total		<u>\$ 307,892,000</u>	<u>\$ 290,168,435</u>

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NOTES TO FINANCIAL STATEMENTS

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**12. Pension Plan**

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

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

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

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NOTES TO FINANCIAL STATEMENTS

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**12. Pension Plan (Continued)**

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

Beginning July 1, 2006, employees participating in the SCRS have been required to contribute 6.50 percent of all compensation. For the year ended June 30, 2010, the employer contribution rate was 9.24 percent (before a surcharge to fund retiree health and dental insurance coverage). For the year ended June 30, 2009, this rate was 9.24 percent and for the year ended June 30, 2008, this rate was 9.06 percent. The Authority's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2010, 2009, and 2008 were approximately \$523,000, \$508,000 and \$467,000 respectively, and equaled the required contributions (excluding the surcharge) for each year. Also, the Authority paid employer group life insurance contributions of approximately \$8,500 for the current fiscal year at the rate of .15% of compensation.

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

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).

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**12. Pension Plan (Continued)**

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. 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.

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NOTES TO FINANCIAL STATEMENTS

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

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, 2010 was \$198,000, which equaled the required contribution rate of 3.78%. 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, 2010.

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

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

*Other Employee Benefits*

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

The Authority recorded benefit expenses for these insurance benefits for active employees in the amount of \$523,000 for the year ended June 30, 2010.

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NOTES TO FINANCIAL STATEMENTS

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**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, 2010.

**15. Commitments and Contingencies**

*Financial Award Commitments*

As of June 30, 2010, the Authority has financial award commitments outstanding totaling approximately \$7,938,135 under the Housing Trust Fund programs and \$1,785,242 for special initiatives under the Program Fund.

*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. During fiscal year 2009 the Authority reported the downgrading of Guaranteed Investment Contracts (GIC) provided by American International Group, Depfa Bank, PLC and Monumental Life Insurance Company. 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.

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NOTES TO FINANCIAL STATEMENTS

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**16. Subsequent Events**

The Authority has evaluated subsequent events through October 20, 2010, which is the date the financial statements were available to be issued.

On January 12, 2010 the Authority closed on \$120,000,000 in “Escrow Bonds” purchased by the US Government under the New Issue Bond Program. These bonds represent 60% of \$200,000,000 in Homeownership Revenue Bond (HRB) that the Authority plans to issue during fiscal year 2011.

On July 1, 2010 the Authority issued \$100,000,000 (\$60,000,000 Escrow Bonds and \$40,000,000 Market Bonds) of Homeownership Revenue Bonds.

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 will be administered by the SC Housing Corp., a newly created not for profit 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.

There are five activities under the program. For four of the activities, all funds will be paid directly to the loan servicer and secured by subordinate liens on the property. The interest rate on the promissory notes associated with these activities will be 0% and will be forgiven at a rate of 20% per year over five years. All payoff funds must be recycled into the program. After the program sunset date of December 31, 2017, any payoff funds remaining must be returned to Treasury. The fifth activity is designed to assist beneficiaries in unsalvageable situations transition from homeownership to rental housing. Under this activity, funds are granted directly to the beneficiary and no liens are recorded.

On October 1, 2010, Moody’s Investor Services downgraded Pallas Capital Corporation to Baa3. As a result of the ratings downgrade, the Authority may be required to liquidate \$9,725,710 in Pallas Capital Corporation Guaranteed

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**16. Subsequent Events (Continued)**

Investment Contracts (GICs) held by the Single Family program. Should the funds be required to be reinvested, they will be invested at prevailing market rates.

**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, 2010, is presented on the following pages.

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NOTES TO FINANCIAL STATEMENTS

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

<b>Statement of Net Assets - June 30, 2010</b>					
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	<b>Totals</b>
<b>Assets</b>					
Current assets:					
Restricted assets:					
Cash and cash equivalents	\$ 16,267,781	\$ 45,683,347	\$ -	\$ -	\$ 61,951,128
Investments	-	-	-	9,496,319	9,496,319
Loans receivable, net of unamortized discounts	4,440,529	12,755,991	-	492,642	17,689,162
Accrued interest receivable:					
Loans	929,685	4,562,226	-	43,048	5,534,959
Deposits and investments	90,792	164,892	-	20,769	276,453
Due from other funds	-	-	-	12,002	12,002
Unamortized bond issuance costs	32,830	395,016	-	-	427,846
Total current assets	<u>21,761,617</u>	<u>63,561,472</u>	<u>-</u>	<u>10,064,780</u>	<u>95,387,869</u>
Non-current assets:					
Restricted assets:					
Cash and cash equivalents	8,752,315	33,928,271	121,118,360	(3,143,112)	160,655,834
Loans receivable, net of unamortized discounts	172,879,037	578,229,868	-	31,694,496	782,803,401
Unamortized bond issuance costs	639,161	4,713,793	375,107	-	5,728,061
Total noncurrent assets	<u>182,270,513</u>	<u>616,871,932</u>	<u>121,493,467</u>	<u>28,551,384</u>	<u>949,187,296</u>
Total assets	<u>204,032,130</u>	<u>680,433,404</u>	<u>121,493,467</u>	<u>38,616,164</u>	<u>1,044,575,165</u>

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NOTES TO FINANCIAL STATEMENTS

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

<b>Statement of Net Assets - June 30, 2010</b>					
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	<b>Totals</b>
<b>Liabilities</b>					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable	\$ 13,737,810	\$ 30,322,190	\$ -	\$ -	\$ 44,060,000
Accrued interest payable on bonds	2,657,781	15,563,347	-	-	18,221,128
Total liabilities payable from restricted assets	16,395,591	45,885,537	-	-	62,281,128
Due to other funds	-	-	1,077,330	-	1,077,330
Other liabilities	(348)	4,428	-	65,166	69,246
Total current liabilities	16,395,243	45,889,965	1,077,330	65,166	63,427,704
Non-current liabilities:					
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	88,841,540	566,483,042	120,000,000	-	775,324,582
Other non-current liabilities	-	366,680	-	-	366,680
Total noncurrent liabilities	88,841,540	566,849,722	120,000,000	-	775,691,262
Total Liabilities	105,236,783	612,739,687	121,077,330	65,166	839,118,966
<b>Net Assets</b>					
Restricted for:					
Debt service	13,610,000	30,120,000	-	-	43,730,000
Bond reserves	3,209,250	7,622,136	-	-	10,831,386
Special programs	81,976,097	29,951,581	416,137	38,550,998	150,894,813
Total net assets	\$ 98,795,347	\$ 67,693,717	\$ 416,137	\$ 38,550,998	\$ 205,456,199

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NOTES TO FINANCIAL STATEMENTS

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

**Statement of Revenue, Expenses, and Changes in Net Assets - Year Ended June 30, 2010**

	Single Family	Mortgage Revenue	Homownership Bond	Revenue Reserve	Totals
<b>Operating revenue</b>					
Interest and other charges on loans	\$ 7,669,453	\$ 37,360,246	\$ -	\$ 482,566	\$ 45,512,265
Income on deposits and investments	247,760	2,586,966	25,737	126,552	2,987,015
Administrative fees and other	46,625	555,517	-	141,123	743,265
Total operating revenue	<u>7,963,838</u>	<u>40,502,729</u>	<u>25,737</u>	<u>750,241</u>	<u>49,242,545</u>
<b>Operating expenses</b>					
Bond interest	5,315,563	31,942,280	-	-	37,257,843
Program services	305,687	1,967,037	-	(4,993)	2,267,731
Bond issuance cost amortization	32,830	442,786	-	-	475,616
Other expenses	6,100	582,648	-	212,752	801,500
Total operating expenses	<u>5,660,180</u>	<u>34,934,751</u>	<u>-</u>	<u>207,759</u>	<u>40,802,690</u>
<b>Operating income (loss)</b>	<u>2,303,658</u>	<u>5,567,978</u>	<u>25,737</u>	<u>542,482</u>	<u>8,439,855</u>
<b>Transfers</b>					
Transfers in	-	3,213,488	390,400	7,772,339	11,376,227
Transfers out	(11,470,742)	-	-	-	(11,470,742)
Total transfers	<u>(11,470,742)</u>	<u>3,213,488</u>	<u>390,400</u>	<u>7,772,339</u>	<u>(94,515)</u>
Increase (decrease) in net assets	(9,167,084)	8,781,466	416,137	8,314,821	8,345,340
Net assets, at beginning of year, as restated	107,962,431	58,912,251	-	30,236,177	197,110,859
Net assets, at end of year	<u>\$ 98,795,347</u>	<u>\$ 67,693,717</u>	<u>\$ 416,137</u>	<u>\$ 38,550,998</u>	<u>\$ 205,456,199</u>

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NOTES TO FINANCIAL STATEMENTS

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

	<b>Statement of Cash Flows - Year Ended June 30, 2010</b>				
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	<b>Totals</b>
<b>Cash Flows From Operating Activities</b>					
Receipt of loan principal payments	\$25,567,480	\$ 63,830,844	\$ -	\$ 14,581,746	\$103,980,070
Purchase/origination of new loans	(31,639,321)	(26,609,784)	-	(41,944,218)	(100,193,323)
Payments to vendors	(327,932)	(2,509,596)	-	(144,735)	(2,982,263)
Other Receipts	-	-	-	141,124	141,124
Receipt of loan interest payments	7,654,374	37,316,233	-	471,109	45,441,716
Net cash flows provided by (used in) operating activities	<u>1,254,601</u>	<u>72,027,697</u>	<u>-</u>	<u>(26,894,974)</u>	<u>46,387,324</u>
<b>Cash Flows From Noncapital Financing Activities</b>					
Transfers from other programs	-	3,213,488	390,400	7,772,339	11,376,227
Transfers to other programs	(11,470,742)	-	-	-	(11,470,742)
Loans from other programs	(26,884)	(172,521)	1,077,330	(951)	876,974
Proceeds from sale of bonds	-	-	120,000,000	-	120,000,000
Principal payments on bonds payable	-	(65,075,000)	-	-	(65,075,000)
Principal payments on notes payable	-	(22,000,000)	-	-	(22,000,000)
Interest payments on bonds payable	(5,315,562)	(33,929,155)	-	-	(39,244,717)
Payment on bond issuance costs	-	(65,569)	(375,107)	-	(440,676)
Net cash flows provided by (used in) noncapital financing activities	<u>(16,813,188)</u>	<u>(118,028,757)</u>	<u>121,092,623</u>	<u>7,771,388</u>	<u>(5,977,934)</u>
<b>Cash Flows From Investing Activities</b>					
Purchase of investments	-	-	-	(9,496,319)	(9,496,319)
Sale of investments	-	-	-	1,733,220	1,733,220
Income on deposits and investments	254,206	2,571,206	25,737	271,569	3,122,718
Net cash flows provided by (used in) investing activities	<u>254,206</u>	<u>2,571,206</u>	<u>25,737</u>	<u>(7,491,530)</u>	<u>(4,640,381)</u>
Net increase (decrease) in cash and cash equivalents	(15,304,381)	(43,429,854)	121,118,360	(26,615,116)	35,769,009
Cash and cash equivalents, beginning of year	40,324,477	123,041,472	-	23,472,004	186,837,953
Cash and cash equivalents, end of year	<u>\$25,020,096</u>	<u>\$ 79,611,618</u>	<u>\$ 121,118,360</u>	<u>\$ (3,143,112)</u>	<u>\$222,606,962</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT  
AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

	<b>Cash Flows - Year Ended June 30, 2010</b>				<b>Totals</b>
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Homeownership Bond</b>	<b>Revenue Reserve</b>	
<b>Reconciliation of Operating Income (Loss) to Cash Flows Provided by (Used in) Operating Activities:</b>					
Operating income (loss)	\$ 2,303,658	\$ 5,567,978	\$ 25,737	\$ 542,482	\$ 8,439,855
Adjustments to reconcile operating income (loss) to cash flows provided by (used in) operating activities:					
Bond premium amortization	(46,625)	(555,517)	-	-	(602,142)
Bond discount amortization	-	60,431	-	-	60,431
Bond early exit amortization	-	218,911	-	-	218,911
Bond issuance cost amortization	32,830	442,786	-	-	475,616
Bonds interest expense reclassified to non-capital financing activities	5,315,563	31,942,280	-	-	37,257,843
Income on deposits and investments reclassified to investing activities	(247,760)	(2,586,966)	(25,737)	(126,552)	(2,987,015)
Receipt of loan principal payments	25,567,480	63,830,844	-	14,581,746	103,980,070
Purchase/origination of new loans	(31,639,321)	(26,609,784)	-	(41,944,218)	(100,193,323)
Change in assets and liabilities:					
(Increase) decrease in accrued interest receivable-loans	(15,080)	(44,013)	-	(11,455)	(70,548)
Increase (decrease) in accounts payable, accrued expenses and due to grantor	(16,144)	(239,253)	-	63,023	(192,374)
Total adjustments	(1,049,057)	66,459,719	(25,737)	(27,437,456)	37,947,469
Net cash provided by (used in) operating activities	\$ 1,254,601	\$ 72,027,697	\$ -	\$ (26,894,974)	\$ 46,387,324

## OTHER FINANCIAL INFORMATION

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

Year Ended June 30, 2010 Federal Grantor/Program Title	CFDA Number	Total Awards/ Expenditures	Awards/ Expenditures to Subrecipients
<b>Department of Housing and Urban Development</b>			
Section 8 - Project-Based Cluster:			
Housing Assistance Payments Program-Special allocations	14.195	\$ 108,151,249	\$ 2,435,437
Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856	51,685	-
Total Section 8 - Project-Based Cluster:		108,202,934	2,435,437
*HOME Investment Partnership Program	14.239	10,266,513	1,131,936
HERA Neighborhood Stabilization Program	14.228	24,850,573	3,728,691
ARRA Tax Credit Assistance Program	14.258	7,792,971	-
Section 8 - Housing Choice Vouchers	14.871	11,889,003	143,488
Total Direct - Department of Housing and Urban Development		<u>\$ 163,001,994</u>	<u>\$ 7,439,552</u>

\* Total Expenditures for the HOME Investment Partnership Program include \$2,628,585 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, 2010

**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”) as of and for the year ended June 30, 2010, which collectively comprise the South Carolina State Housing Finance and Development Authority’s basic financial statements and have issued our report thereon dated October 20, 2010. 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Carolina State Housing Finance and Development Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Carolina State Housing Finance and Development Authority’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Mr. Richard H. Gilbert, Jr. CPA  
Deputy State Auditor  
Office of the State Auditor  
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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 20, 2010.

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

*Webster Rogers LLP*

Columbia, South Carolina  
October 20, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO 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, 2010. 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 are applicable to each of its major federal programs for the year ended June 30, 2010.

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 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 requirements that could have a direct and material effect on a major federal

Mr. Richard H. Gilbert, Jr. CPA  
Deputy State Auditor  
Office of the State Auditor  
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program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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, 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 would not necessarily identify all deficiencies in internal control 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, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Webster Rogers LLP*

Columbia, South Carolina  
October 20, 2010

**South Carolina State Housing Finance and Development Authority**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2010**

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**Summary of Auditors' Results**

1. The type of report issued on the basic financial statements: **Unqualified opinion**
2. Significant deficiencies in internal control were disclosed by the audit of the basic financial statements: **None reported**  
Material weaknesses: **None**
3. Noncompliance which is material to the basic financial statements: **None reported**
4. Significant deficiencies in internal control over major programs: **None reported**  
Material weaknesses: **None**
5. The type of report issued on compliance for major programs: **Unqualified opinion**
6. Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **No**
7. Major federal programs: Section 8 Project Based Cluster - CFDA Numbers 14.195 and 14.856, HERA Neighborhood Stabilization Program – CFDA Number 14.228 and ARRA Tax Credit Assistance Program – CFDA Number 14.258.
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, 2010.

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

There were no findings related to federal awards for the year ended June 30, 2010.