

SC HOUSING CORP
COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2011

SC HOUSING CORP
Columbia, South Carolina

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Independent Auditors' Report

To the Board of Directors
Columbia, South Carolina

We have audited the accompanying financial statements of the governmental activities and the major fund for the SC Housing Corp (the "Corporation"), a non-profit organization and a component unit of the South Carolina State Housing, Finance and Development Authority as of and for the year ended June 30, 2011, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation'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.

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 and the major fund of the Corporation as of June 30, 2011, and the respective changes in financial position 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 March 30, 2012, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

WebsterRogers LLP

Columbia, South Carolina
March 30, 2012

South Carolina Housing Corporation

Management's Discussion and Analysis

As management of the South Carolina Housing Corporation (SC Housing Corp) we offer readers of SC Housing Corp's financial statements this narrative overview and analysis of the financial activities of the SC Housing Corp for the fiscal year ended June 30, 2011.

Overview of South Carolina Homeownership Lending Program

SC Housing Corp was created to administer the South Carolina Homeownership and Employment Lending Program (SC HELP) which was funded with \$295,431,547 from the U.S. Treasury's Hardest-Hit Fund. At this time, SC HELP is the only program operated by the SC Housing Corp.

SC HELP operates three distinct programs: Mortgage Payment Assistance that provides up to 24 months assistance with mortgage payments; Direct Loan Assistance which provides a payment to bring delinquent mortgages current; and Property Disposition Assistance which provides a one-time payment to the homeowner to help transition from homeownership to renting. SC HELP is intended to assist responsible borrowers, those borrowers who are facing possible foreclosure due to circumstances beyond their control, i.e. unemployment, underemployment or significant reduction in self-employment income. For some programs, death of a spouse, catastrophic medical expenses, and/or divorce may be considered. SC HELP is not intended to serve borrowers who are facing foreclosure due to poor credit and/or debt management, stripping the equity from their home for non-essential purposes, or overall mismanagement of their personal budget.

The SC Housing Corp is a not-for-profit component unit of the SC State Housing Finance and Development Authority (SCSHFDA). The SC Housing Corp reimburses SCSHFDA for facilities, data processing and administrative assistance through direct billing and indirect cost allocations. The June 30, 2011, Audited Financial Statements of the SCSHFDA are in a separate report which is available on-line at SCHousing.com.

Financial Highlights

- Net Assets of the newly established governmental fund remained zero throughout the reporting period due to the fact that SC HELP expenses are fully funded by the U.S. Treasury. Assets of \$5,261,970 reflect unexpended treasury draws and accrued interest on investments at 6/30/2011. Liabilities reflect accounts payable of \$70,100 of incurred program expenses, \$220,847 of program expenses due to the SCSHFDA, and \$4,971,023 in unexpended draws.
- Revenues include \$2,528,977 in program draws and \$1,437 in interest on investments held in the fund. Program expenses totaled \$2,530,414 and were made up of mortgage assistance payments of \$828,378 paid to distressed homeowners and administrative program expenses of \$1,702,036.

Since this is the first year of operations, a comparison to the prior year is not possible. However, in future years, this section will explain the differences between the current and prior year assets, liabilities, and changes in net assets.

Requests for Information

This financial report is designed to provide a general overview of the South Carolina Housing Corporation 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 Housing Corp
300-C Outlet Pointe Boulevard
Columbia, South Carolina 29210

SC HOUSING CORP

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2011**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash	\$ 5,261,927	\$ -	\$ 5,261,927
Interest receivable	43	-	43
Total assets	<u>5,261,970</u>	<u>-</u>	<u>5,261,970</u>
LIABILITIES			
Accounts payable	70,100	-	70,100
Due to primary government	220,847	-	220,847
Deferred revenue	<u>4,971,023</u>	<u>-</u>	<u>4,971,023</u>
Total liabilities	5,261,970	-	5,261,970
FUND BALANCE/NET ASSETS			
Fund balance:			
Unassigned	<u>-</u>	-	-
Total liabilities and fund balance	<u>\$ 5,261,970</u>		
Net assets:			
Unrestricted		<u>-</u>	<u>-</u>
Total net assets		<u>\$ -</u>	<u>\$ -</u>

See the accompanying Notes to Financial Statements.

SC HOUSING CORP

**COMBINED GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
Public welfare - foreclosure counseling	\$ 2,530,414	\$ -	\$ 2,530,414
Total program expense	<u>2,530,414</u>	<u>-</u>	<u>2,530,414</u>
Program revenues:			
Charges for services	1,700,599	-	1,700,599
Operating grants	<u>828,378</u>	<u>-</u>	<u>828,378</u>
Total program revenues	<u>2,528,977</u>	<u>-</u>	<u>2,528,977</u>
Net program expense	<u>1,437</u>	<u>-</u>	<u>1,437</u>
General revenues:			
Investment earnings	<u>1,437</u>	<u>-</u>	<u>1,437</u>
Excess of revenues over expenditures/ change in net assets	-	-	-
Fund balance/net assets			
Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying Notes to Financial Statements.

SC HOUSING CORP

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Note 1. Reporting Entity

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

- Mortgage payment assistance for eligible homeowners by providing up to twenty-four months of assistance with mortgage payments
- Direct loan assistance by providing funds to eligible homeowners to assist them in bringing their delinquent mortgages current
- Property disposition assistance to eligible homeowners by providing a one-time payment to the homeowner to help transition from homeownership to renting

The SC Housing Corp is reported as a blended component unit of the South Carolina State Housing, Finance and Development Authority (the "Authority"), and its financial position and results of operations have been reported in the Authority's financial statements. The board of directors of the Authority also serves as the board of directors for the Corporation. The executive director of the Authority also serves as the executive director for the Corporation.

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

Note 2. Summary of Significant Accounting Policies

Fund accounting

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

Government-wide financial statements

The statement of net assets and the statement of activities report information about all activities of the Corporation. The statement of activities demonstrates the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) administrative fees earned by providing services to applicants who directly benefit from services provided, and 2) grants that are restricted to meeting the operational requirements of a particular function. Interest and other items not properly included among program revenues are reported as general revenues. The effect of any interfund activity has been removed from the government-wide statements.

Fund financial statements

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

SC HOUSING CORP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 2. Summary of Significant Accounting Policies (Continued)

Governmental funds

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

The general fund is the Corporation's general operating fund. It accounts for resources that fund the services the Corporation provides to the citizens of South Carolina, except those required to be accounted for in another fund. The general fund is always reported as a major fund in the governmental fund statements.

Measurement focus and basis of accounting

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

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

Accrual basis

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

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

Modified accrual basis

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

SC HOUSING CORP

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 2. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

Amounts denoted in the financial statements as “cash and cash equivalents” represent cash on deposit in banks and investments with banks having a maturity at purchase of three months or less.

Fund balance

The Corporation adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended June 30, 2011. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The following categories are used in the fund level financial statements of the governmental funds:

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

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

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

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

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

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

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

SC HOUSING CORP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 2. Summary of Significant Accounting Policies (Continued)

Grant revenue

Revenues from federal grants are recognized when qualifying expenditures are made and all grant requirements have been met. Cash received by the Corporation prior to the Corporation making qualifying expenditures is recorded as deferred revenue as described below.

Deferred revenue

Deferred revenues arise, on both the entity-wide and fund financial statements when resources are received by the Corporation before it has legal claim to them as when grant monies are received prior to the occurrence of the qualifying expenditures. When the revenue recognition criteria are met and the Corporation has a legal claim to the resources, the liability for the deferred revenue is removed from the balance sheet and revenue is recognized.

Charges for services

This revenue is derived primarily from providing program application processing to homeowners behind on their mortgage payments. Revenue is recognized upon completion of the service.

Management estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the operating period. The actual outcome of the estimates could differ from the estimates made in the preparation of the financial statements.

Note 3. Deposits

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

At June 30, 2011, the Corporation's bank deposits had a carrying amount of \$5,261,927 and a bank balance of \$5,277,077. \$250,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the dedicated method.

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure the Corporation will not be able to recover the value of the deposits with the collateral securities that are in the possession of an outside party. Deposits include cash and cash equivalents on deposits with banks.

Note 4. Related-Party Transactions

The South Carolina State Housing, Finance and Development Authority provides accounting services and other administrative functions for the Corporation. The Corporation reimburses the Authority for any direct costs incurred by the Authority on behalf of the Corporation. The Corporation reimburses any indirect costs at the Authority's current federal indirect cost rate. All of the individuals that perform services for the Corporation are employed by the Authority.

SC HOUSING CORP

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 5. Risk Management

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

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

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

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

The Corporation, through the Authority, pays premiums to the State of South Carolina's Insurance Reserve Fund which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

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

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

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

Note 6. Economic Dependency

All of the Corporation's funds are received from the U.S. Department of Treasury under their Hardest Hit Fund program.

Note 7. Contingencies

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

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Governmental Auditing Standards**

To the Board of Directors
Columbia, South Carolina

We have audited the financial statements of the governmental activities and the major fund of the SC Housing Corp (the "Corporation"), a component unit of the South Carolina State Housing, Finance and Development Authority, as of and for the year ended June 30, 2011, which collectively comprise the SC Housing Corp's basic financial statements and have issued our report thereon dated March 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the SC Housing Corp is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the SC Housing Corp's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SC Housing Corp's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SC Housing Corp'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SC Housing Corp'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*.

The Board of Directors
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This report is intended solely for the information and use of the Members of the SC Housing Corp's Board of Directors, 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 Rogues LLP

Columbia, South Carolina
March 30, 2012