

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

COLUMBIA, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

State of South Carolina



Office of the State Auditor

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

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October 15, 2007

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, 2007, was issued by DeLoach & Williamson, L.L.P., 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 over a horizontal line.

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

RHGjr/trb

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

COLUMBIA, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

TABLE OF CONTENTS

Report of Independent Auditors	1
Management's Discussion and Analysis (Required Supplementary Information).....	3
 Financial Statements	
Authority-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	11
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds	12
Statement of Net Assets-Proprietary Funds.....	13
Statement of Revenue, Expenditures and Changes in Net Assets - Proprietary Funds	15
Statement of Cash Flows-Proprietary Funds	16
Notes to Financial Statements.....	19
 Other Financial Information:	
Schedule of Expenditures of Federal Awards.....	64
Note to Schedule of Expenditures of Federal Awards.....	65
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	68
Schedule of Findings and Questioned Costs.....	70

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REPORT OF INDEPENDENT AUDITORS

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, each major fund, and the aggregate remaining fund information of the South Carolina State Housing Finance and Development Authority (the "Authority") as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, each major fund, and the aggregate remaining fund information 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, 2007 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2007, 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.

We also audited the adjustments described in *Note 18* that were applied to restate the June 30, 2006 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Control 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2007, 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 grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the result of our audit.

Releach E. Williamson, C.C.P.

October 4, 2007

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, 2007.

Financial Highlights

- Net assets of the Authority's proprietary fund increased \$17,197,949 to \$284,428,165. This increase is largely the result of the Authority's increased loan portfolio.
- The governmental fund net assets increased \$9,144,608 to \$43,089,976. This increase was realized even though the grant awards disbursed increased by \$3,089,830 and documentary stamp taxes received decreased by \$2,079,371 during the fiscal year. This was made possible largely due to the return to the Housing Trust Fund of \$6,475,569 from the State's General Fund that had been transferred in previous fiscal years.
- Federal grant revenue decreased \$5,834,858 to \$112,600,106. All federal assistance received by the Authority during the current fiscal year was from the Department of Housing and Urban Development (HUD). The decrease in HUD assistance is due to a reduction in construction draws for projects funded under the HOME program and because the Authority transferred the administration of the Housing Choice Voucher program for Cherokee and Spartanburg counties to the South Carolina Regional Housing Authority No. 1 and Spartanburg Housing Authority, respectively.
- The Authority redeemed \$39,435,000 in mortgage housing revenue bonds prior to their maturity and issued like bonds in the amount of \$83,540,000.
- For the fiscal year ending June 30, 2007, the Authority purchased \$206,845,318 of new loans, first mortgages, down payment assistance loans, and multifamily mortgages, in its proprietary funds. This was a record breaking year for the Authority. The Authority experienced great demand for single family mortgage loans due to prevailing market conditions. The Authority has also made its mortgage loan program more available to citizens in areas where there was limited access by increasing the number of mortgage lenders and brokers approved to originate loans on our behalf.
- Bonds Outstanding increased \$37,444,105 to \$699,022,799.

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 Fund-The Authority has one governmental (special revenue) fund, the Housing Trust Fund. The Authority is the administrator of this special revenue fund. The revenues are collected by the South Carolina Department of Revenue and remitted to the Authority for the purpose of making grants and loans for affordable housing projects and developments. These fund statements focus on how cash and other financial assets flowing into the fund have been used.

Proprietary Fund-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 \$26,342,557. The following table summarizes the financial position for the Authority as of and for the years ended June 30, 2007 and 2006.

	Governmental Activities		Business-Type Activities		Totals		
	2007	2006	2007	2006	2007	#	2006
Total current assets	\$ 33,603,340	\$ 25,503,610	\$ 141,035,173	\$ 124,396,968	\$ 174,638,513	\$	149,900,578
Capital assets	-	-	770,715	865,230	770,715		865,230
Non-current assets	9,491,628	8,443,683	866,892,304	837,631,193	876,383,932		846,074,876
Total assets	<u>\$ 43,094,968</u>	<u>\$ 33,947,293</u>	<u>\$ 1,008,698,192</u>	<u>\$ 962,893,391</u>	<u>\$ 1,051,793,160</u>		<u>\$ 996,840,684</u>
Total current liabilities	\$ 4,992	\$ 1,925	\$ 47,325,757	\$ 51,444,232	\$ 47,330,749	\$	51,446,157
Total long-term liabilities	-	-	676,944,270	644,218,945	676,944,270		644,218,945
Total liabilities	<u>\$ 4,992</u>	<u>\$ 1,925</u>	<u>\$ 724,270,027</u>	<u>\$ 695,663,177</u>	<u>\$ 724,275,019</u>		<u>\$ 695,665,102</u>
Fund equity in capital assets	\$ -	\$ -	\$ 770,715	\$ 865,230	\$ 770,715	\$	865,230
Fund equity-restricted	43,089,976	33,945,368	264,125,409	244,078,905	307,215,385		278,024,273
Fund equity-unrestricted	-	-	19,532,041	22,286,081	19,532,041		22,286,081
Total net assets	<u>\$ 43,089,976</u>	<u>\$ 33,945,368</u>	<u>\$ 284,428,165</u>	<u>\$ 267,230,216</u>	<u>\$ 327,518,141</u>		<u>\$ 301,175,584</u>

Net assets of the Authority's governmental funds increased \$9,144,608 to \$43,089,976. 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 \$17,197,949 to \$284,428,165. 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, the Multi-Family Loan Program and other activities comprised of federal assistance, tax credit, monitoring and other activities which are recorded in the Authority's Administrative program.

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

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenue:						
Charges for services	\$ -	\$ -	\$ 48,870,471	\$ 41,065,255	\$ 48,870,471	\$ 41,065,255
Program Investment						
Income	1,523,286	856,473	11,999,977	9,227,060	13,523,263	10,083,533
Tax/Grant/Federal						
Revenue	15,194,273	17,262,523	112,600,106	118,434,964	127,794,379	135,697,487
Total revenue	16,717,559	18,118,996	173,470,554	168,727,279	190,188,113	186,846,275
Expenses	13,656,852	10,567,022	158,282,057	150,750,014	171,938,909	161,317,036
Tranfers between						
Funds	(391,668)	(400,000)	391,668	400,000	-	-
Transfers from						
State General Fund	6,475,569	-	1,617,784	-	8,093,353	-
Extraordinary Item:						
Loss on early						
extinguishment						
of debt	-	-	-	539,125	-	539,125
Prior period adjustments	-	-	-	4,886,688	-	4,886,688
Increase in net assets	<u>\$ 9,144,608</u>	<u>\$ 7,151,974</u>	<u>\$ 17,197,949</u>	<u>\$ 22,724,828</u>	<u>\$ 26,342,557</u>	<u>\$ 29,876,802</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 grants. Revenues of the Authority's business-type activities were primarily from charges for services (\$48,870,471) and program investment income (\$11,999,977). 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 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 are recorded in the Authority's General Operating Fund. Program revenue adequately covers all expenses of the Authority. Program revenue exceeded expenses by \$17,197,949 for the business-type activities. Net assets of the Authority increased from the previous year by \$26,342,557.

Debt Administration

The Authority's total liabilities increased \$28,609,917 to \$724,275,019. Long-term debt increased \$33,225,325 to \$676,944,270. The long-term debt consists of bonds payable at \$676,662,799 and accrued compensated absences in the amount of \$281,471.

Economic Factors

The Authority's financial condition has shown steady and consistent improvement throughout the last several years.

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 those with interest in the government's finances. Questions concerning 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, 2007

	Governmental Activities	Business Type Activities	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 30,640,964	\$ 31,530,888	\$ 62,171,852
Restricted assets:			
Cash and cash equivalents	-	45,741,042	45,741,042
Loans receivable, net of unamortized discounts	-	54,775,727	54,775,727
Accrued interest receivable:			
Deposits and investments	-	1,105,931	1,105,931
Loans	-	4,208,930	4,208,930
Accounts receivable:			
Due from State Agency	2,626,348	553,691	3,180,039
Due from grantor	-	82,229	82,229
Other	23,000	-	23,000
Loans receivable	280,673	2,932,785	3,213,458
Accrued interest receivable:			
Loans	27,774	101,747	129,521
Deposits and investments	4,581	2,203	6,784
Total current assets	<u>33,603,340</u>	<u>141,035,173</u>	<u>174,638,513</u>
Non-current assets:			
Loans receivable, net of current portion and unamortized discounts	9,491,628	65,066,596	74,558,224
Restricted assets:			
Cash and cash equivalents	-	152,469,094	152,469,094
Investments	-	2,397,244	2,397,244
Loans receivable, net of unamortized discounts	-	641,192,255	641,192,255
Unamortized bond issuance costs	-	5,767,115	5,767,115
Capital assets, net of accumulated depreciation	-	770,715	770,715
Total noncurrent assets	<u>9,491,628</u>	<u>867,663,019</u>	<u>877,154,647</u>
Total assets	<u>43,094,968</u>	<u>1,008,698,192</u>	<u>1,051,793,160</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

(CONTINUED)

	Governmental Activities	Business Type Activities	Totals
Liabilities			
Current liabilities:			
Liabilities payable from restricted assets:			
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	-	22,360,000	22,360,000
Accrued interest payable on bonds	-	18,254,921	18,254,921
Mortgage escrows	4,992	5,126,121	5,131,113
Total liabilities payable from restricted current assets	4,992	45,741,042	45,746,034
Accrued compensated absences	-	452,118	452,118
Accrued salaries and related payroll expenses	-	461,371	461,371
Due to grantor	-	248,171	248,171
Other liabilities	-	423,055	423,055
Total current liabilities	4,992	47,325,757	47,330,749
Non-current liabilities:			
Accrued compensated absences, net of current portion	-	281,471	281,471
Bonds payable, net of current portion on unamortized premiums and discounts and deferral losses on refundings	-	676,662,799	676,662,799
Total noncurrent liabilities	-	676,944,270	676,944,270
Total liabilities	4,992	724,270,027	724,275,019
Net Assets			
Invested in capital assets	-	770,715	770,715
Restricted for:			
Debt service	-	36,294,921	36,294,921
Bond reserves	-	11,539,972	11,539,972
Special programs	43,089,976	216,290,516	259,380,492
Unrestricted	-	19,532,041	19,532,041
Total net assets	<u>\$ 43,089,976</u>	<u>\$ 284,428,165</u>	<u>\$ 327,518,141</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Housing Trust Fund	\$ 13,656,852	\$ -	\$ 1,723,092	\$ (11,933,760)	\$ -	\$ (11,933,760)
Total governmental activities	13,656,852	-	1,723,092	(11,933,760)	-	(11,933,760)
Business-type activities:						
Administrative	9,852,897	11,004,686	-	-	1,151,789	1,151,789
Single-Family Mortgage Loan Programs	39,078,639	37,385,166	11,688,849	-	9,995,376	9,995,376
Multi-Family Mortgage Loan Programs	-	1,034	58,304	-	59,338	59,338
Multi-Family Federal Assistance Programs	108,696,775	-	112,600,106	-	3,903,331	3,903,331
Program Fund Programs	653,746	255,635	476,774	-	78,663	78,663
Total business-type activities	158,282,057	48,646,521	124,824,033	-	15,188,497	15,188,497
Total functions/programs	\$ 171,938,909	\$ 48,646,521	\$ 126,547,125	(11,933,760)	15,188,497	3,254,737
General revenue:						
Documentary stamp taxes				14,994,467	-	14,994,467
Transfers between activities				(391,668)	391,668	-
Transfers from State General Fund				6,475,569	1,617,784	8,093,353
Total general revenue, transfers, and extraordinary items				21,078,368	2,009,452	23,087,820
Change in net assets				9,144,608	17,197,949	26,342,557
Net assets, at beginning of year, as restated				33,945,368	267,230,216	301,175,584
Net assets, at end of year				\$ 43,089,976	\$ 284,428,165	\$ 327,518,141

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	Housing Trust Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 30,640,964
Accounts receivable:	
Due from State Agency	2,626,348
Other	23,000
Loans receivable	280,673
Accrued interest receivable:	
Loans	27,774
Deposits and investments	4,581
Total current assets	<u>33,603,340</u>
Non-current assets:	
Loans receivable, net of current portion	<u>9,491,628</u>
Total non-current assets	<u>9,491,628</u>
Total assets	<u><u>\$ 43,094,968</u></u>
Liabilities and Fund Balance	
Current liabilities:	
Mortgage escrows	\$ 4,992
Total current liabilities	<u>4,992</u>
Fund Balance:	
Reserved for housing projects and development	<u>43,089,976</u>
Total fund balance	<u>43,089,976</u>
Total liabilities and fund balance	<u><u>\$ 43,094,968</u></u>

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, 2007

	Housing Trust Fund
Revenue	
Documentary stamp taxes	\$ 14,994,467
Interest on loans	199,806
Interest on deposits and investments	1,523,286
Total revenue	<u>16,717,559</u>
Expenditures:	
Grants for housing trust programs	13,656,852
Total expenditures	<u>13,656,852</u>
Excess of revenue over expenditures	<u>3,060,707</u>
Other Financing Sources (Uses)	
Transfer to Other Funds	(391,668)
Transfer from State General Fund	6,475,569
Total other financing sources (uses)	<u>6,083,901</u>
Net change in fund balance	9,144,608
Fund balance, at beginning of year	<u>33,945,368</u>
Fund balance, at end of year	<u><u>\$ 43,089,976</u></u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2007

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Eliminations	Totals
Assets						
Current assets:						
Cash and cash equivalents	\$ 16,489,709	\$ -	\$ -	\$ 15,041,179	\$ -	\$ 31,530,888
Restricted assets:						
Cash and cash equivalents	4,976,651	40,614,921	149,470	-	-	45,741,042
Loans receivable, net of unamortized discounts	-	54,775,727	-	-	-	54,775,727
Accrued interest receivable:						
Investments	-	1,104,929	1,002	-	-	1,105,931
Loans	-	4,208,930	-	-	-	4,208,930
Accounts receivable:						
Due from grantor	553,691	-	-	-	-	553,691
Other	82,229	-	-	-	-	82,229
Due from other funds	-	952,166	-	-	(952,166)	-
Loans receivable	2,475,730	-	-	457,055	-	2,932,785
Accrued interest receivable:						
Loans	93,674	-	-	8,073	-	101,747
Deposits and investments	-	-	-	2,203	-	2,203
Total current assets	24,671,684	101,656,673	150,472	15,508,510	(952,166)	141,035,173
Non-current assets:						
Loans receivable, net of current portion and unamortized discounts	57,241,377	-	-	7,825,219	-	65,066,596
Restricted assets:						
Cash and cash equivalents	-	152,469,094	-	-	-	152,469,094
Investments	-	2,397,244	-	-	-	2,397,244
Loans receivable, net of unamortized discounts	-	641,192,255	-	-	-	641,192,255
Unamortized bond issuance costs	-	5,767,115	-	-	-	5,767,115
Capital assets, net of accumulated depreciation	770,715	-	-	-	-	770,715
Total noncurrent assets	58,012,092	801,825,708	-	7,825,219	-	867,663,019
Total assets	82,683,776	903,482,381	150,472	23,333,729	(952,166)	1,008,698,192

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

(CONTINUED)

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Eliminations	Totals
Liabilities						
Current liabilities:						
Liabilities payable from restricted assets:						
Bonds payable	-	22,360,000	-	-	-	22,360,000
Accrued interest payable on bonds	-	18,254,921	-	-	-	18,254,921
Mortgage escrows	4,976,651	-	149,470	-	-	5,126,121
Total liabilities payable from restricted assets	4,976,651	40,614,921	149,470	-	-	45,741,042
Accrued compensated absences	452,118	-	-	-	-	452,118
Accrued salaries and related payroll expenses	461,371	-	-	-	-	461,371
Due to grantor	248,171	-	-	-	-	248,171
Due to other funds	952,166	-	-	-	(952,166)	-
Other liabilities	206,014	215,515	-	1,526	-	423,055
Total current liabilities	7,296,491	40,830,436	149,470	1,526	(952,166)	47,325,757
Non-current liabilities:						
Accrued compensated absences, net of current portion	281,471	-	-	-	-	281,471
Bonds payable, net of current unamortized premiums portion and discounts and deferred losses on refundings	-	676,662,799	-	-	-	676,662,799
Total noncurrent liabilities	281,471	676,662,799	-	-	-	676,944,270
Total liabilities	7,577,962	717,493,235	149,470	1,526	(952,166)	724,270,027
Net Assets						
Invested in capital assets	770,715	-	-	-	-	770,715
Restricted for:						
Debt service	-	36,294,921	-	-	-	36,294,921
Bond reserves	-	11,539,972	-	-	-	11,539,972
Special programs	54,804,060	138,154,253	-	23,332,203	-	216,290,516
Unrestricted	19,531,039	-	1,002	-	-	19,532,041
Total net assets	\$ 75,105,814	\$ 185,989,146	\$ 1,002	\$ 23,332,203	\$ -	\$ 284,428,165

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, 2007

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
Operating Revenue					
Interest and other charges on loans	\$ 1,665,419	\$ 37,385,166	\$ -	\$ 114,936	\$ 39,165,521
Interest on deposits and investments	48,059	11,416,840	58,304	476,774	11,999,977
Administrative fees and other	9,291,208	272,009	1,034	140,699	9,704,950
Total operating revenue	11,004,686	49,074,015	59,338	732,409	60,870,448
Operating Expenses					
Bond interest	-	35,331,806	-	-	35,331,806
Program services	-	2,613,108	-	93,378	2,706,486
General and administrative	9,726,829	-	-	-	9,726,829
Bond issuance cost amortization	-	751,131	-	-	751,131
Depreciation of capital assets	126,068	-	-	-	126,068
Other expenses	-	382,594	-	-	382,594
Total operating expenses	9,852,897	39,078,639	-	93,378	49,024,914
Operating Income (Loss)	1,151,789	9,995,376	59,338	639,031	11,845,534
NonOperating Revenue (Expenses)					
Federal grant and contract revenue	112,600,106	-	-	-	112,600,106
Housing assistance payments and grant awards disbursed	(108,696,775)	-	-	(560,368)	(109,257,143)
Total nonoperating revenue (expenses)	3,903,331	-	-	(560,368)	3,342,963
Income Before Operating Transfers and Extraordinary Items	5,055,120	9,995,376	59,338	78,663	15,188,497
Transfers					
Transfers in	7,701,861	429,963	-	7,399,723	15,531,547
Transfers out	(6,000,000)	(7,715,000)	(1,424,879)	-	(15,139,879)
Transfers from State General Fund	-	-	-	1,617,784	1,617,784
Total transfers	1,701,861	(7,285,037)	(1,424,879)	9,017,507	2,009,452
(Increase) decrease in net assets	6,756,981	2,710,339	(1,365,541)	9,096,170	17,197,949
Net assets, at beginning of year, as restated	68,348,833	183,278,807	1,366,543	14,236,033	267,230,216
Net assets, at end of year	\$ 75,105,814	\$ 185,989,146	\$ 1,002	\$ 23,332,203	\$ 284,428,165

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2007

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
Cash Flows From Operating Activities					
Receipt of loan principal payments	\$ 5,874,596	\$ 66,168,800	\$ 255,820	\$ 722,848	\$ 73,022,064
Receipt of loan interest payments	1,571,723	37,074,073	-	193,077	38,838,873
Purchase/origination of new loans	(14,467,760)	(190,771,558)	-	(1,606,000)	(206,845,318)
Other receipts	11,215,824	-	231,034	150,859	11,597,717
Payments to employees	(6,868,844)	-	-	-	(6,868,844)
Payments to vendors	(2,671,321)	(2,710,956)	(665)	(42,391)	(5,425,333)
Payments to customers	-	-	(599,282)	(13,710)	(612,992)
Net cash flows (used) for operating activities	(5,345,782)	(90,239,641)	(113,093)	(595,317)	(96,293,833)
Cash Flows from Capital Financing Activities					
Purchase of equipment	(31,553)	-	-	-	(31,553)
Net cash flows (used) for operating activities	(31,553)	-	-	-	(31,553)
Cash Flows from Noncapital Financing Activities					
Transfers from other programs	7,701,860	429,963	-	9,017,507	17,149,330
Transfers to other programs	(6,000,000)	(7,715,000)	(1,424,879)	-	(15,139,879)
Loans from other programs	3,985,273	(6,638,129)	-	-	(2,652,856)
Receipts from HUD	112,600,106	-	-	-	112,600,106
Payments of housing assistance and grants	(108,696,775)	-	-	(560,564)	(109,257,339)
Proceeds from sale of bonds and notes	-	83,540,000	-	-	83,540,000
Principal payments on bonds payable	-	(59,185,895)	-	-	(59,185,895)
Interest payments on bonds payable	-	(31,763,623)	-	-	(31,763,623)
Payment on bond issuance costs	-	(856,072)	-	-	(856,072)
Net cash provided (used) for noncapital activities	9,590,464	(22,188,756)	(1,424,879)	8,456,943	(5,566,228)
Cash Flows from Investing Activities					
Sale (Purchase) of Investments	-	(23,132)	-	-	(23,132)
Income on deposits and investments	48,059	11,884,321	66,528	479,146	12,478,054
Cash flows from investing activities	48,059	11,861,189	66,528	479,146	12,454,922
Net increase (decrease) in cash and cash equivalents	4,261,188	(100,567,208)	(1,471,444)	8,340,772	(89,436,692)
Cash and cash equivalents, beginning of year - as restated	17,205,172	293,651,223	1,620,914	6,700,407	319,177,716
Cash and cash equivalents, end of year	\$ 21,466,360	\$ 193,084,015	\$ 149,470	\$ 15,041,179	\$ 229,741,024

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(CONTINUED)

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
Reconciliation of Net Operating Income to Net Cash Flows Provided by (used for) Operating Activities:					
Net operating income	\$ 1,151,790	\$ 9,995,376	\$ 59,338	\$ 639,031	\$ 11,845,535
Adjustments to reconcile net operating income to net cash flows provided by (used for) operating activities:					
Depreciation	126,068	-	-	-	126,068
Bond premium amortization	-	263,447	-	-	263,447
Bond issuance cost amortization	-	751,131	-	-	751,131
Bonds interest expense reclassified to noncapital financing activities	-	35,331,806	-	-	35,331,806
Income on deposits and investments reclassified to investing activities	(48,059)	(11,688,849)	(58,305)	(476,775)	(12,271,988)
Receipt of loan principal payments	5,874,596	66,168,800	-	722,848	72,766,244
Purchase/origination of new loans	(14,467,760)	(190,771,558)	-	(1,606,000)	(206,845,318)
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	470,681	(311,094)	230,000	-	389,587
Decrease in due from other funds	-	-	-	123,070	123,070
Increase in accounts payable, accrued expenses and due to grantor	186,663	15,917	-	-	202,580
Increase (decrease) in mortgage escrows	-	39	(344,126)	1,722	(342,365)
Increase in other liabilities	1,360,239	5,344	-	-	1,365,583
Decrease in accrued interest receivable-loans	-	-	-	787	787
Total adjustments	(6,497,572)	(100,235,017)	(172,431)	(1,234,348)	(108,139,368)
Net cash provided by (used for) operating activities	<u>\$ (5,345,782)</u>	<u>\$ (90,239,641)</u>	<u>\$ (113,093)</u>	<u>\$ (595,317)</u>	<u>\$ (96,293,833)</u>

**Supplemental Information
Operating Activities**

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

General Operating Fund	1,571,723
Single Family Finance Programs Fund	37,074,073
Program Fund	193,077
Total	<u>\$ 38,838,873</u>

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(CONTINUED)

Noncash Investing

- a. The decrease in fair value of investments for the year ended June 30, 2007 that is included in these financial statements in "investment income" follows:

Single Family Finance Program Fund	\$ 66,124
Total	<u>\$ 66,124</u>

Noncash Noncapital Financing Activities

- a. Interest payments on bonds do not include \$46,507 amortization of bond discounts and \$178,545 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, 2007

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 in the United States of America (GAAP) 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.

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.

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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 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 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.

The Authority has issued bonds and notes, which are insured, secured and/or guaranteed such that the Authority has no liability. 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

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.

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. The Authority receives funding from a percentage of the documentary stamp tax on instruments conveying real property. The Fund is to be used to finance, in whole or in part, affordable housing projects and developments by loans and/or grants or providing matching funds to secure federal or other funding.

In accordance with governmental accounting standards, the portions of fund balances that are not available for appropriation and expenditure and/or are legally segregated for a specified use are presented as reserved.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

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 to 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:

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 investments and loans. 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.

The Single Family Finance Programs Fund accounts for the financing activities of the Authority's 1979 Single Family Mortgage Purchase Bond Indenture and 1994 Mortgage Revenue Bonds Indenture. The proceeds of each series of bonds issued under the two 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 programs 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.

The Multifamily Finance Programs Fund accounted for the financing activities of the Authority's Multi-Family residential revenue bond indentures. Mortgages were purchased covering projects that house low income citizens meeting federal eligibility requirements. Both the bonds issued and mortgages purchased were satisfied in full during the fiscal year ended June 30, 2006. The fund still accounts for some remaining reserve and escrow accounts. Under the indentures, excess funds may be transferred to other programs at the discretion of the Authority. Such funds were transferred to the General Operating Fund and Program Fund during the fiscal year.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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. In November 2006, the Authority's Board authorized \$9 million of special initiatives to be accounted for in the Program Fund. These initiatives were funded by amounts on deposit in the fund, transfers from other funds and funds returned to the Program Fund from the General Fund of the State.

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 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 net total assets.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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.

The accounting policies of the Authority conform to generally accepted accounting principles (GAAP) applicable to its activities as prescribed by the Governmental Accounting Standards Board (GASB), the recognized standard-setting body for GAAP for all governmental entities. Proprietary fund activities are reported using the accrual basis of accounting. If measurable, revenues are recognized when earned and expenses when incurred. In accordance with GASB Statement 20, the Authority has elected to apply all applicable GASB pronouncements as well as all applicable FASB pronouncements issued on or before November 30, 1989 not in conflict with GASB standards.

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

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

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 in the restricted portion of the accompanying statements. 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. 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. Funds not required for bond reserves and near term debt service payments are available to pay operating expenses and to fund new mortgage loans.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

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).
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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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 using the bonds outstanding method which results in amortization being computed based on the percentage of bonds retired to the original amount of bonds issued. Costs incurred in connection with the bond issues are deferred and amortized on the straight-line method over the lives 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 lives 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 a separate line item amount. Amortization of bond issuance costs is included in operating expenses as a separate line item amount.

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 Rental 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

Federally Assisted Program Advances and Fees (Continued)

The Home Investments Partnership Program provides loans and grants to local governments and non-profit entities to assist private property owners in rehabilitating rental housing for low-income tenants. An administrative fee is drawn from HUD to reimburse the Authority, as well as the local government for administrative costs. These administrative fees are recognized as operating revenue when earned. The funds granted and passed through by the Authority are included in the accompanying financial statements in the General Operating Fund.

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, 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 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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 (Deposits and Investments)*.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of funds. For those 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.

For the Authority's funds not held by the State Treasurer, cash equivalents include investments in short-term, highly liquid securities having a maturity at the time of purchase of three months or less.

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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary Of Significant Accounting Policies (Continued)

Loans Receivable

Loans receivable consist of mortgage loans, which are carried at par. Discounts on loans 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 \$18.6 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 to right to cancel the mortgage insurance if certain conditions, as provided by federal law and/or the insurance carrier, have been met. As required by the Homeowners Protection Act, mortgage insurance is automatically cancelled when the original loan to value ratio reaches 79%. Under such conditions, the Authority considers the mortgaged property as adequate collateral against significant potential loan losses.

Management is of the opinion that the mortgage insurance coverage is adequate to cover any significant potential loan losses under the Single Family Finance Programs should they occur. Loans determined to be uncollectible and unrecoverable from mortgage insurance carriers are charged off against program income. Most loans made from the Housing Trust Fund and a significant 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.

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 ten years for furniture and equipment and five years for software. Currently, the Authority owns personal property only and does not own any real property (land, buildings, attachments, etc.).

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

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.

Compensated Absences

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

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. A reserve fund is established to liquidate the liability when determined. The Authority incurred and paid \$4,454 in arbitrage expense for the year ended June 30, 2007.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

Budget Policy

The appropriation 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.

Operating and Non-Operating 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. The Authority's primary operating revenues are from 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 non-operating revenues and expenses.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

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.

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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits and Investments

Deposits

All deposits of the Authority are insured or collateralized by using the Dedicated Method. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by each of the depository banks; (First-Citizens Bank and Trust Company, Bank of New York, and Bank of America).

At June 30, 2007, the Authority's deposits had a carrying amount of \$12,653,987 and a bank balance of \$13,895,010. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was covered by collateral held under the dedicated method.

Financial Statements		Footnotes	
Current assets:		Deposits:	
Cash and cash equivalents:		Deposits held by State	
Unrestricted	\$ 62,171,852	Treasurer	\$ 11,228,480
Restricted	45,741,042	Other Deposits	25,125,596
		Total deposits	<u>36,354,076</u>
Non-current assets:		Investments:	
Cash and cash equivalents:		Treasurer	61,702,923
Restricted	152,469,094	Other Investments	164,722,233
Investments:		Total investments	<u>226,425,156</u>
Unrestricted			
Restricted	<u>2,397,244</u>		
Total	<u>\$ 262,779,232</u>	Total	<u>\$ 262,779,232</u>

Deposits Held by State Treasurer

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits and Investments (Continued)

Investments

At June 30, 2007, the Authority's investment balances were as follows:

	Fair Value	Less Than 1 Year	Greater Than 1 Year
Tri-Party Repurchase Agreements	\$ 58,849,511	\$ 58,849,511	\$ -
Guaranteed Investment Contracts	88,716,454	88,716,454	-
Certificate of Deposit	6,000,000	6,000,000	-
Federal National Mortgage Association and Federal Home Loan Bank Discount Notes	8,759,123	8,759,123	-
U.S. Treasury Bonds	2,397,145	-	2,397,145
Totals	\$ 164,722,233	\$ 162,325,088	\$ 2,397,145

Investment Risk Factors

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

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 each bond issue 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits and Investments (Continued)

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.

Custodial Credit Risk

For an investment, 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 investments or collateral securities held by an outside party. As of June 30, 2007, the Authority had \$3,670,558 held by the Trustee as cash, which will be used as part of the debt service payment scheduled for July 1, 2007. The Authority has no policy on custodial credit risk.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits and Investments (Continued)

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: *Guaranteed Investment Contracts 53.86%, and Tri-Party Repo's 35.73%*. 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.

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, 2007 are as follows:

	<u>Reserve Requirements</u>	<u>Actual Funding</u>	<u>Over (Short)</u>
Single Family Mortgage Reserve Funds-1998	\$ 3,048,750	\$ 3,209,250	\$ 160,500
Mortgage Revenue Bond Reserve Funds	<u>2,716,150</u>	<u>8,330,722</u>	<u>5,614,572</u>
Totals	<u><u>\$ 5,764,900</u></u>	<u><u>\$ 11,539,972</u></u>	<u><u>\$ 5,775,072</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

3. Loans Receivable

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

Governmental Funds

Housing Trust Fund notes maturing on various dates
2012-2037 plus interest ranging from 1%-5.5% per
payable in monthly installments of principal and interest,
as provided in the notes.

\$ 9,772,301

Total governmental funds

\$ 9,772,301

Proprietary Funds

General Operating Fund notes maturing in various dates
from 2006-2037 plus interest ranging from 0%-8% per
annum, payable in installments of principal and interest
as provided in the notes.

\$ 59,717,107

Single Family Finance Programs notes maturing on dates
from 2006-2037 plus interest ranging from 4%-10.75% per
annum, payable in monthly installments of principal and
interest.

695,967,982

Program Fund notes maturing on various dates from 2009
to 2032 plus interest ranging from 2.79% - 8% per annum;
payable in installments of principal and interest as provided
in the notes.

8,282,274

Total proprietary funds

\$ 763,967,363

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

4. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balances July 1, 2006	Increases	Decreases	Ending Balances June 30, 2007
Equipment and furniture	\$ 1,244,767	\$ 31,553	\$ (26,593)	\$ 1,249,727
Accumulated depreciation	(379,537)	(126,068)	26,593	(479,012)
Capital assets, net of accumulated depreciation	<u>\$ 865,230</u>	<u>\$ (94,515)</u>	<u>\$ -</u>	<u>\$ 770,715</u>

5. Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2007 was as follows:

	Beginning Balances July 1, 2006	Additions	Reductions	Ending Balances June 30, 2007	Due within One Year
Bonds payable	\$ 657,725,000	\$ 83,540,000	\$ 48,510,000	\$ 692,755,000	\$ 22,360,000
Unamortized premiums and discounts	6,371,524	2,452,500	216,940	8,607,084	-
Deferred amount on refunding	(2,517,830)	178,545	-	(2,339,285)	-
Total bonds payable	661,578,694	86,171,045	48,726,940	699,022,799	22,360,000
Notes Payable	13,090,000	-	13,090,000	-	-
Accrued compensated absences	709,912	463,438	439,761	733,589	452,118
Totals	<u>\$ 675,378,606</u>	<u>\$ 86,634,483</u>	<u>\$ 62,256,701</u>	<u>\$ 699,756,388</u>	<u>\$ 22,812,118</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds and Notes Payable

At June 30, 2007, 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 5.50%) due 2014-2035	09/11/98	\$ 106,975,000	\$ 101,625,000
Plus, unamortized premium			1,077,999
			<u>102,702,999</u>
Mortgage Revenue Bonds			
1994A (6.20% to 6.75%) due 2009-2026	10/20/94	30,000,000	3,620,000
1995A (6.00% to 6.70%) due 2007-2027	03/01/95	25,000,000	4,560,000
1996A (5.70% to 6.35%) due 2007-2028	05/01/96	25,000,000	6,320,000
1997A (5.25% to 5.95%) due 2007-2029	06/01/97	30,000,000	13,165,000
1999A (4.65% to 5.40%) due 2007-2031	12/23/98	37,700,000	13,650,000
1999B (5.10% to 8.30%) due 2008-2032	11/01/99	139,910,000	50,430,000
2000A (5.75% to 6.40%) due 2007-2031	06/01/00	121,435,000	37,055,000
2001A (4.30% to 5.50%) due 2007-2033	08/01/01	63,455,000	38,855,000
2002A (2.95% to 4.95%) due 2007-2034	10/16/02	39,500,000	29,935,000
2003A (2.60% to 5.45%) due 2007-2034	09/10/03	50,000,000	39,685,000
2004A (3.05% to 5.50%) due 2007-2035	07/01/04	100,000,000	92,840,000
2005A (3.00% to 5.00%) due 2007-2036	06/15/05	81,720,000	79,475,000
2006A/B (3.70% to 5.75%) due 2008-2037	06/30/06	98,000,000	98,000,000
2006C (3.55% to 5.50%) due 2008-2037	12/19/06	83,540,000	83,540,000
			<u>591,130,000</u>
Plus: Unamortized premiums			7,726,347
Less: Unamortized discounts			(197,262)
Unamortized deferred losses on refundings on debt			(2,339,285)
			<u>596,319,800</u>
Total bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			<u><u>\$ 699,022,799</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds and Notes Payable (Continued)

Amounts, including interest, required to complete payment of the bond obligations as of June 30, 2007 are as follows:

Year Ending	Principal	Interest	Totals
2008	\$ 22,360,000	\$ 31,977,719	\$ 54,337,719
2009	11,705,000	39,972,635	51,677,635
2010	12,400,000	35,119,687	47,519,687
2011	12,875,000	34,507,257	47,382,257
2012	13,540,000	33,852,775	47,392,775
2012-2017	81,680,000	157,547,734	239,227,734
2017-2022	119,300,000	130,922,755	250,222,755
2022-2027	137,935,000	94,193,548	232,128,548
2027-2032	150,810,000	55,394,818	206,204,818
2032-2037	124,510,000	16,430,825	140,940,825
2037-2042	5,640,000	154,009	5,794,009
Total	<u>\$ 692,755,000</u>	<u>\$ 630,073,762</u>	<u>\$ 1,322,828,762</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds and Notes 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 fiscal year ended June 30, 2007:

Single Family Finance Programs:

Single Family Mortgage Revenue Bonds	
Series 1998	\$ 3,200,000
	<u>3,200,000</u>
 Mortgage Revenue Bonds	
Series 1994 A	745,000
Series 1995 A	715,000
Series 1996 A	565,000
Series 1997 A	1,875,000
Series 1999 A	2,115,000
Series 1999 B	7,805,000
Series 2000 A	6,695,000
Series 2001 A	4,635,000
Series 2002 A	2,725,000
Series 2003 A	3,905,000
Series 2004 A	3,530,000
Series 2005 A	925,000
	<u>36,235,000</u>
Total	<u><u>\$ 39,435,000</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds and Notes Payable (Continued)

Amortization of bond discounts for the year ended June 30, 2007 that were included in bond interest expense in the Single Family Finance Programs Fund was \$46,507 for the year ended June 30, 2007.

Bond premium amortized for the year ended June 30, 2007 and attributable to the Single Family Finance Programs Fund bonds totaled \$263,447 and was reported as a single item revenue amount in the proprietary fund.

Amortization of deferred losses on refundings of debt of \$178,545 for the year ended June 30, 2007 and attributable to the Single Family Finance Programs Fund bonds was included in bond interest expense in the proprietary fund.

On June 28, 2007, the Authority executed a revolving Mortgage Prepayment Refunding Note with Wachovia Bank, N.A. for \$21 million. Pursuant to the terms of the note agreement, the amount outstanding at any given time must not exceed \$21 million. The primary purpose of this note is to function as a vehicle to preserve the federally limited tax-exempt private activity volume cap pursuant to the federal tax code. The Authority expects to draw down on the note twice each year at or near debt service payment dates. No amounts had been drawn on the Note as of June 30, 2007.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. Leases

At June 30, 2007, 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 September 2009 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 2007 through 2011.

Future minimum annual lease payments under non-cancelable operating leases with remaining terms in excess of one year are as follows:

<u>Year Ending June 30,</u>	
2008	\$ 287,922
2009	292,858
2010	286,950
2011	295,400
2012	299,151
Total leases with external entities	<u><u>\$ 1,462,281</u></u>

The Authority incurred rental expense of approximately \$257,570 under the aforementioned leases for the fiscal year ended June 30, 2007.

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 \$128,537 in fiscal year 2007.

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 AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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, 2011. Approximately \$46,465 was expended under these leases during the fiscal year ended June 30, 2007.

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 expenditures for such items applicable to fiscal year 2007 were not readily available.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

9. Fund Transfers

Fund transfers to and from other funds, which are legally allowable and not in accordance with the terms of the respective bond indentures, as applicable during the year ended June 30, 2007 follow:

- \$7,285,037 from the Single Family Finance Program to the General Operating Fund to pay for operating expenses and to fund special initiatives.
- \$16,824 from the Multi-Family Finance Program to the General Operating Fund for administrative and operational expenses.
- \$6,000,000 from the General Operating Fund to the Program Fund to fund special initiatives Authorized by the Board.
- \$1,399,723 from the Multi-Family Finance Program to the Program Fund for the purchase of new down payment assistance loans and to fund special initiatives.
- \$8,332 from the Multi-Family Finance Program to the Housing Trust Fund for the reimbursement of certain program expenses.
- \$1,617,784 from the State General Fund to the Program Fund as reimbursement for amounts that were required to be remitted to the State's General Fund to cover the State's operating deficits in prior fiscal years.
- \$400,000 from the Housing Trust Fund to the General Operating Fund for administrative and operational expenses.
- \$6,475,569 from the State General Fund to the Housing Trust Fund as reimbursement for amounts that were required to be remitted to the State General Fund due to deficits in the State General Fund in prior fiscal years.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

10. Risk Management (Continued)

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. The IRF rates are determined actuarially.

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

The Authority has recorded insurance premium expenditures in the general and administrative expense category of the General Operating Fund.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

11. Conduit Debt

From time to time, the Authority has issued bonds to provide mortgages for the citizens of South Carolina, for multi-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 between the Authority and various mortgagees. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or the State, and accordingly, have not been reported in the accompanying financial statements.

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
	Fiscal Year 1985 (84/85)		
06/85	Conduit Mortgage Loan Notes (Breckenridge Apt. Project)	\$ 3,000,000	\$ -
12/85	Multi-Family Guaranteed Mortgage Revenue Bonds, (Paces Run Apartments/CTS Parklane Project)	12,050,000	12,050,000
12/85	Conduit Mortgage Loan Notes (Crossroads Apartments)	2,150,000	-
	Fiscal Year 1987 (86/87)		
07/88	Multi-Family Housing Revenue Bonds (Paces Landing Series 1988)	8,750,000	8,750,000
	Fiscal Year 1991 (90/91)		
09/90	Multi-Family Housing Revenue Bonds 1990 Series A (Westbridge)	2,850,000	-
	Fiscal Year 1992 (91/92)		
10/91	Multi-Family Housing Mortgage Revenue Bonds (Plum Chase)	7,000,000	-
	Fiscal Year 1993 (92/93)		
06/93	Multi-Family Housing Revenue Refunding Bonds (Westbury Place)	5,510,000	-
06/93	Multi-Family Housing Revenue Refunding Bonds (Windsor Shores)	5,085,000	2,470,000

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

11. Conduit Debt (Continued)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
	Fiscal Year 1996 (95/96)		
11/95	Multi-Family Housing Revenue Refunding Bonds (Runaway Bay)	10,300,000	8,365,000
11/95	Mortgage Revenue Refunding Bonds (Heritage)	4,525,000	3,985,000
	Fiscal Year 1998 (97/98)		
04/98	Multi-Family Housing Revenue Refunding Bonds (Three Rivers and Edenwood Apts.)	9,535,000	-
	Fiscal Year 1999 (98/99)		
05/99	Multi-Family Rental Housing Revenue Bonds (Ashley Apts.)	4,300,000	3,785,000
	Fiscal Year 2000 (99/00)		
07/99	Multi-Family Housing Revenue Bonds (CTS Rock Hill Project)	9,145,000	9,145,000
	Multi-Family Housing Revenue Bonds (Osprey Pointe III Project)	3,920,000	-
	Fiscal Year 2001 (00/01)		
10/00	Multi-Family Rental Housing Revenue Bonds (City Heights Apts.)	6,750,000	6,260,000
10/00	Multi-Family Rental Housing Revenue Bonds (Spartanburg Terrace Apts.)	4,750,000	4,405,000
10/00	Multi-Family Housing Revenue Bonds (Piedmont Manor Apts.)	6,250,000	5,770,000
12/00	Multi-Family Rental Housing Revenue Bonds (Bent Tree Apts./Richland Oxford)	11,130,000	11,130,000
02/01	Multi-Family Rental Housing Revenue Bonds (Ashton & Stoney Creek Apts.)	16,600,000	-
06/01	Multi-Family Housing Revenue Bonds (Fairway Apts. Project)	7,735,000	7,735,000
06/01	Multi-Family Housing Revenue Bonds (Bay Club Apartments Project)	6,400,000	-
06/01	Multi-Family Rental Housing Revenue Refunding Bonds (Martin's Creek Project)	7,300,000	7,300,000

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

11. Conduit Debt (Continued)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
Fiscal Year 2002 (01/02)			
08/01	Multi-Family Housing Revenue Refunding Bonds (North Slope Apts./Greenville Oxford Project)	4,955,000	4,955,000
08/01	Multi-Family Housing Revenue Refunding Bonds (Springhouse Apts./Charleston Oxford Project)	10,180,000	10,180,000
08/01	Multi-Family Housing Revenue Refunding Bonds (Hunt Club Apts./Spartanburg Oxford Project)	9,415,000	9,415,000
08/01	Multi-Family Rental Housing Revenue Bonds (Arrington Place Apartments)	2,680,000	2,550,000
12/01	Multi-Family Rental Housing Revenue Bonds (Cedarwood Apartments-Columbia, SC)	8,750,000	8,335,000
12/01	Multi-Family Rental Housing Revenue Bonds (Belton Woods Apts.)	5,795,000	5,265,000
Fiscal Year 2003 (02/03)			
12/02	Multi-Family Rental Housing Revenue Bonds (Poplar Square Apartments)	2,960,000	2,824,405
12/02	Multi-Family Rental Housing Revenue Bonds (Spring Grove Apartments Project)	7,410,000	7,235,000
Fiscal Year 2004 (03/04)			
12/03	Multi-Family Rental Housing Revenue Bonds (Rocky Creek Apartments Project)	10,750,000	-
04/04	Multi-Family Rental Housing Revenue Bonds (Beverly Apartments Project)	3,010,000	2,970,000
04/04	Multi-Family Rental Housing Revenue Bonds (Hillandale Apartments Project)	6,660,000	6,465,000
06/04	Multi-Family Rental Housing Revenue Bonds (Greenville Arms Apartments Project)	4,625,000	4,225,000
06/04	Multi-Family Rental Housing Revenue Bonds (Canebreak Apartments Project)	4,500,000	4,453,492

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

11. Conduit Debt (Continued)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
Fiscal Year 2005 (04/05)			
07/04	Rental Housing Revenue Bonds (Bayside Apartments Project)	17,250,000	17,250,000
08/04	Multifamily Rental Housing Revenue Bonds (Oakfield Apartments project)	2,844,000	2,626,000
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	10,972,488
5/05	Multifamily Rental Housing Revenue Bonds (Wenmont Apartments Project)	6,210,000	6,202,398
5/05	Multifamily Rental Housing Revenue Bonds (Hallmark Homes Apartments Project)	12,840,000	12,840,000
5/05	Multifamily Rental Housing Revenue Bonds (Appian Way Apartments Project)	11,500,000	11,500,000
5/05	Multifamily Rental Housing Revenue Bonds (Cross Creek Apartments Project)	8,850,000	8,850,000
5/05	Multifamily Rental Housing Revenue Bonds (Rocky Creek Apartments Project)	12,745,000	12,745,000
5/05	Multifamily Rental Housing Revenue Bonds (Towers East Apartments Project)	11,500,000	11,500,000
5/05	Multifamily Rental Housing Revenue Bonds (Spanish Trace Apartments Project)	3,685,000	3,685,000
Fiscal Year 2006 (05/06)			
12/06	Conduit Mortgage Loan Notes (Crossroads Apartments Project)	1,021,967	876,009
Total		<u>\$ 346,420,967</u>	<u>\$ 268,469,792</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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.

The majority of 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. Generally, all state employees are required to participate in and contribute to the SCRS 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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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 up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. See related information in *Note 15*.

Beginning July 1, 2006, employees participating in the SCRS have been required to contribute 6.5% of all compensation. For the year ended June 30, 2007, the employer contribution rate became 11.55%, which consists of 8.05% for basic retirement contribution, a 3.35% surcharge to fund retiree health and dental insurance coverage and .15% for group life insurance. The Authority's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2007, 2006, and 2005 were approximately \$389,000, \$377,000 and \$376,000 respectively, and equaled the required contributions of 8.05% (excluding the surcharge) for each year. Also, the Authority paid employer group life insurance contributions of approximately \$7,700 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 on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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 certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Authority are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service and meet one or more of the eligibility requirements, such as age, length of service, and hire date.

Generally, those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Authority for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Authority for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

13. Post Employment and Other Employee Benefits (Continued)

The Authority recorded employer contributions expenditures within the applicable operating expense categories for these insurance benefits for active employees of approximately \$389,000 for the year ended June 30, 2007. As discussed in *Note 12*, the Authority paid approximately \$198,000 applicable to the 3.35% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to the Authority's retirees is not available. By State law, the Authority has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

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, 2007.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

15. Retirement Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are 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 program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave at the end of the program period. The Authority made no payments under the TERI program for the fiscal year ended June 30, 2007.

16. Commitments

As of June 30, 2007, the Authority has financial award commitments outstanding totaling approximately \$20,221,000 under the Housing Trust Fund programs and \$5,395,000 for special initiatives under the Program Fund.

17. Subsequent Events

On July 2, 2007, the Authority drew down \$9,850,000 from a Mortgage Prepayment Refunding Note agreement entered into on June 28, 2007. This draw was redeemed on September 28, 2007.

On September 11, 2007, the Authority issued \$83,000,000 of Series 2007A Mortgage Revenue Bonds and \$50,000,000 of Series 2007B Mortgage Revenue Notes.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

18. Prior Period Adjustments

During the current year, the Authority determined that revenues and expenses related to its in-house single family mortgage servicing operations were not properly reported in the Authority's financial statements in past fiscal years. In prior years, all activity of the servicing operations was included in the Single Family Finance Programs Fund through increases or decreases to cash with corresponding entries to the mortgage escrow liability account. As a result, certain amounts earned under these servicing activities were not properly recognized by the Authority. These amounts were not significant to the Authority on a year by year basis, however; the single family mortgage servicing activities have grown significantly in recent years and the amounts have now (in aggregate) been deemed significant by the Authority. Additionally, the Authority believes that all associated revenues and expenses (as well as the amounts that the Authority holds in escrow on behalf of the borrowers) should be reported in the Authority's General Operating Fund. The resulting prior period adjustments (as summarized below) in both the Single Family Programs Fund and General Operating Fund were necessary in order to properly reflect the servicing activities performed in prior years and to remove them from the Single Family Finance Programs Fund.

	<u>Proprietary Fund</u>
Net assets, July 1, 2006, as previously reported	\$ 262,343,526
Prior period adjustments:	
Single Family Finance Programs Fund	1,662,786
General Operating Fund	<u>3,223,904</u>
Net assets, July 1, 2006, as restated	<u><u>\$ 267,230,216</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. 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, 2007 is presented on the following pages.

Statement of Net Assets - June 30, 2007			
	Single Family	Mortgage Revenue	Totals
Assets			
Current assets:			
Restricted assets:			
Cash and cash equivalents	\$ 2,657,781	\$ 37,957,140	\$ 40,614,921
Loans receivable, net of unamortized discounts	8,836,088	45,939,639	54,775,727
Accrued interest receivable:			
Deposits and investments	319,786	785,143	1,104,929
Loans	799,688	3,409,242	4,208,930
Due from other funds	-	952,166	952,166
Total current assets	<u>12,613,343</u>	<u>89,043,330</u>	<u>101,656,673</u>
Non-current assets:			
Restricted assets:			
Cash and cash equivalents	42,196,792	110,272,302	152,469,094
Investments	-	2,397,244	2,397,244
Loans receivable, net of unamortized discounts	160,765,214	480,427,041	641,192,255
Unamortized bond issuance costs	779,486	4,987,629	5,767,115
Total noncurrent assets	<u>203,741,492</u>	<u>598,084,216</u>	<u>801,825,708</u>
Total assets	<u>216,354,835</u>	<u>687,127,546</u>	<u>903,482,381</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

Statement of Net Assets - June 30, 2007			
	Single Family	Mortgage Revenue	Totals
Liabilities			
Current liabilities:			
Liabilities payable from restricted assets:			
Bonds payable	-	22,360,000	22,360,000
Accrued interest payable on bonds	2,657,781	15,597,140	18,254,921
Total liabilities payable from restricted assets	2,657,781	37,957,140	40,614,921
Other liabilities	38,918	176,597	215,515
Total current liabilities	2,696,699	38,133,737	40,830,436
Non-current liabilities:			
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	102,702,998	573,959,801	676,662,799
Total noncurrent liabilities	102,702,998	573,959,801	676,662,799
Total Liabilities	105,399,697	612,093,538	717,493,235
Net Assets			
Restricted for:			
Debt service	2,657,781	33,637,140	36,294,921
Bond Reserves	3,209,250	8,330,722	11,539,972
Special Programs	105,088,107	33,066,146	138,154,253
Total net assets	<u>\$ 110,955,138</u>	<u>\$ 75,034,008</u>	<u>\$ 185,989,146</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

Statement of Revenue, Expenses, and Changes in Net Assets - Year Ended June 30, 2007			
	Single Family	Mortgage Revenue	Totals
Operating revenue			
Interest and other charges on loans	6,555,691	30,829,475	37,385,166
Income on deposits and investments	2,055,281	9,361,559	11,416,840
Administrative fees and other	38,528	233,481	272,009
Total operating revenue	8,649,500	40,424,515	49,074,015
Operating expenses			
Bond interest	5,315,563	30,016,243	35,331,806
Program services	285,189	2,327,919	2,613,108
Bond issuance cost amortization	64,620	686,511	751,131
Other expenses	21,014	361,580	382,594
Total operating expenses	5,686,386	33,392,253	39,078,639
Operating income (loss)	2,963,114	7,032,262	9,995,376
Transfers			
Transfers in	429,963	-	429,963
Transfers out	(2,880,807)	(4,834,193)	(7,715,000)
Total transfers	(2,450,844)	(4,834,193)	(7,285,037)
Increase (decrease) in net assets	512,270	2,198,069	2,710,339
Net assets, at beginning of year, as restated	110,442,868	72,835,939	183,278,807
Net assets, at end of year	<u>\$ 110,955,138</u>	<u>\$ 75,034,008</u>	<u>\$ 185,989,146</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

	Statement of Cash Flows - Year Ended June 30, 2007		
	Single Family	Mortgage Revenue	Totals
Cash Flows From Operating Activities			
Receipt of loan principal payments	\$ 18,327,050	\$ 47,841,750	\$ 66,168,800
Receipt of loan interest payments	6,604,723	30,469,350	37,074,073
Purchase/origination of new loans	(21,119,061)	(169,652,497)	(190,771,558)
Payments to vendors	(272,794)	(2,438,162)	(2,710,956)
Net cash flows provided (used) for operating activities	3,539,918	(93,779,559)	(90,239,641)
Cash Flows From Noncapital Financing Activities			
Transfers from other programs	429,963	-	429,963
Transfers to other programs	(2,880,807)	(4,834,193)	(7,715,000)
Loans from other programs	(20,494)	(6,617,635)	(6,638,129)
Proceeds from sale of bonds	-	83,540,000	83,540,000
Principal payments on bonds payable	(3,238,512)	(55,947,383)	(59,185,895)
Interest payments on bonds payable	(5,397,563)	(26,366,060)	(31,763,623)
Payment on bond issuance costs	-	(856,072)	(856,072)
Net cash flows (used) for noncapital activities	(11,107,413)	(11,081,343)	(22,188,756)
Cash Flows From Investing Activities			
Sale (purchase) of investments	-	(23,132)	(23,132)
Income on deposits and investments	2,099,708	9,784,613	11,884,321
Net cash flows provided for investing activities	2,099,708	9,761,481	11,861,189
Net decrease in cash and cash equivalents	(5,467,787)	(95,099,421)	(100,567,208)
Cash and cash equivalents, beginning of year	50,322,360	243,328,863	293,651,223
Cash and cash equivalents, end of year	<u>\$ 44,854,573</u>	<u>\$ 148,229,442</u>	<u>\$ 193,084,015</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

Cash Flows - Year Ended June 30, 2007			
	Single Family	Mortgage Revenue	Totals
Reconciliation of Net Operating Income to Net Cash Flows Provided by (Used for) Operating Activities:			
Net operating income	\$ 2,963,114	\$ 7,032,262	\$ 9,995,376
Adjustments to reconcile net operating income to net cash flows provided by (used for) operating activities:			
Bond premium amortization	38,511	224,936	263,447
Bond issuance cost amortization	64,620	686,511	751,131
Bonds interest expense reclassified to non-capital financing activities	5,315,563	30,016,243	35,331,806
Income on deposits and investments reclassified to investing activities	(2,093,809)	(9,595,040)	(11,688,849)
Receipt of loan principal payments	18,327,050	47,841,750	66,168,800
Purchase/origination of new loans	(21,119,061)	(169,652,497)	(190,771,558)
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	49,031	(360,125)	(311,094)
Increase (decrease) in accounts payable, accrued expenses and due to grantor	(4,028)	19,945	15,917
Increase (decrease) in mortgage escrows	39	-	39
Increase (decrease) in other liabilities	(1,113)	6,457	5,344
Total adjustments	576,803	(100,811,820)	(100,235,017)
Net cash provided by (used for) operating activities	<u>\$ 3,539,917</u>	<u>\$ (93,779,558)</u>	<u>\$ (90,239,641)</u>

OTHER FINANCIAL INFORMATION

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2007

Year Ended June 30, 2007 Federal Grantor/ Program Title	CFDA Number	Total Awards/ Expenditures	Awards/ Expenditures to Subrecipients
Department of Housing and Urban Development			
Section 8 - Project-Based Cluster:			
New Construction and Substantial Rehabilitation	14.182	\$ 6,419,232	\$ 510,745
Housing Assistance Payments Program-Special allocations	14.195	86,211,587	1,996,676
Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856	485,005	-
Total Section 8 - Project-Based Cluster:		93,115,824	2,507,421
*HOME Investment Partnership Program	14.239	17,864,550	12,268,268
Section 8 - Housing Choice Vouchers	14.871	9,651,257	246,882
Total Direct - Department of Housing and Urban Development		\$ 120,631,631	\$ 15,022,571

* Total Expenditures for the HOME Investment Partnership Program include \$10,868,208 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, 2007

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 cash 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.

DELOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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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 South Carolina State Housing Finance and Development Authority (the "Authority") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 4, 2007. 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 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting 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 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 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 matters that we reported to management in a separate letter dated October 4, 2007.

This report is intended solely for the information and use of the Commission members, 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.

A handwritten signature in black ink that reads "DeLoach & Williamson, L.L.P." The signature is written in a cursive, flowing style.

October 4, 2007

DELOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

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Columbia, South Carolina

Compliance

We have audited the compliance of the South Carolina State Housing Finance and Development Authority (the "Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. 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, 2007.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Authority's internal control over compliance.

A control deficiency in the Authority's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control.

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 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 Commissioner, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Rebecca E. Williamson, C.C.P.

October 4, 2007

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results:

Financial Statements:

1. An unqualified opinion dated October 4, 2007, on the financial statements of the Authority for the year ended June 30, 2007 was issued.
2. No material weaknesses relating to the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.
4. No significant deficiencies relating to the audit of major federal awards is reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the Authority are reported below in this schedule.
7. The major programs of the Authority are as follows:

<u>Program</u>	<u>CFDA</u>
Section 8 Project-Based Cluster:	
New Construction and Substantial Rehabilitation	14.182
Housing Assistance Payments Program-Special Allocations	14.195
Lower Income Housing Assistance Program – Moderate Rehabilitation	14.856

8. The threshold for distinguishing between Type A and Type B Programs was \$3,618,949.
9. The Authority did not qualify to be a low risk auditee.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(CONTINUED)

Financial Statement Findings:

None.

Federal Awards Findings and Questioned Costs:

No findings or questioned costs.

Prior Audit Findings and Questioned Costs:

Finding 06-1 General Operating Fund – Capitalization of Loans

During FY 06 procedures were put in place to ensure all current draws on loans were properly classified. However, a few of the draws made in previous years were found that needed to be capitalized. All prior year draw activity has been reviewed and no further corrections were needed in the current fiscal year. The procedures to properly classify draws as they occur remain in place and are operating as intended.

Finding 06-2 Program Income – HOME Investment Partnership Program

During FY 07 procedures were put in place to ensure that program income is properly identified. Program Income is now accounted for in a separate account within the general ledger to ensure that all receipts and expenditures of Program Income are easily identifiable. A report is given to the program staff every month identifying the prior month's receipts. When HOME program staff submits payment requests to Finance, the request indicates the type of HOME funds that are to be used for that payment. Program Income is one of the designations.