

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

**COLUMBIA, SOUTH CAROLINA**

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**AUDITED FINANCIAL STATEMENTS**

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**YEAR ENDED JUNE 30, 2006**

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AND DEVELOPMENT AUTHORITY

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YEAR ENDED JUNE 30, 2006

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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, 2006, 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, 2006 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, 2006, 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 17* that were applied to restate the June 30, 2005 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 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 September 29, 2006, 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.

*Rebeck & Williamson, L.L.P.*

September 29, 2006

# 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, 2006.

### Financial Highlights

- Net assets of the Authority's proprietary fund increased \$17,838,140 to \$262,343,526.
- The governmental fund net assets increased \$7,151,974 to \$33,945,368. This increase was realized even though the grant awards disbursed increased by \$1,061,379 during the fiscal year. This is due to the fact that documentary stamp taxes increased \$3,608,723 due to a very active year in the housing and real estate industry.
- Federal assistance increased \$11,989,028 to \$118,434,964. The majority of this assistance is provided by HUD. The Authority did receive a small amount from FEMA during the fiscal year for Katrina victim housing assistance. The increase in HUD assistance is due partially to additional rental properties being assigned to the Authority by HUD for administration under the Contract Administration Program and largely for increases due to the increase of construction draws for projects funded under the HOME program and the Authority's reallocation of administrative allocations to funding of program activities.
- The Authority redeemed \$62,640,000 in bonds prior to their maturity and issued bonds in the amount of \$98,000,000 and notes in the amount of \$13,090,000.
- For the fiscal year ending June 30, 2006, the Authority purchased \$142,495,183 of new loans in its enterprise fund and made a total of \$286,809 of new loans in the governmental fund. In addition to new loans, over \$45 million of existing loans paid off early. Early pay offs decreased significantly from the prior year due to rises in interest rates in the second half of the year. The Authority saw demand for their loans increase significantly during the second half of the fiscal year as mortgage rates in the conventional market began to increase.

### 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 kinds of statements that present 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. The 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 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 has primarily arisen through the issuances 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 for program purposes.

## Financial Analysis of the Authority as a Whole

**Net Assets.** The combined net assets of the Authority increased by \$24,990,114. The following table summarizes the financial position for the Authority as of and for the years ended June 30, 2006 and 2005.

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Total current assets	\$ 25,503,610	\$ 18,735,699	\$ 125,321,634	\$ 117,877,593	\$ 150,825,244	\$ 136,613,292
Capital assets	-	-	865,230	852,786	865,230	852,786
Non-current assets	8,443,683	8,059,620	837,631,193	781,609,932	846,074,876	789,669,552
Total assets	<u>\$ 33,947,293</u>	<u>\$ 26,795,319</u>	<u>\$ 963,818,057</u>	<u>\$ 900,340,311</u>	<u>\$ 997,765,350</u>	<u>\$ 927,135,630</u>
Total current liabilities	\$ 1,925	\$ 1,925	\$ 57,255,586	\$ 52,933,489	\$ 57,257,511	\$ 52,935,414
Total long-term liabilities	-	-	644,218,945	602,901,436	644,218,945	602,901,436
Total liabilities	<u>\$ 1,925</u>	<u>\$ 1,925</u>	<u>\$ 701,474,531</u>	<u>\$ 655,834,925</u>	<u>\$ 701,476,456</u>	<u>\$ 655,836,850</u>
Fund equity in capital assets	\$ -	\$ -	\$ 865,230	\$ 852,786	\$ 865,230	\$ 852,786
Fund equity-restricted	33,945,368	26,793,394	242,416,119	240,778,340	276,361,487	267,571,734
Fund equity-unrestricted	-	-	19,062,177	2,874,260	19,062,177	2,874,260
Total net assets	<u>\$ 33,945,368</u>	<u>\$ 26,793,394</u>	<u>\$ 262,343,526</u>	<u>\$ 244,505,386</u>	<u>\$ 296,288,894</u>	<u>\$ 271,298,780</u>

Net assets of the Authority's governmental funds increased \$7,151,974 to \$33,945,368. 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 \$18,198,140 to \$262,703,526. This increase is primarily attributable to an increased portion of the Federal revenue earned and available unrestricted funds in the General Operating Fund being used to make lower than market rate interest loans to moderate and low income citizens of the State.

**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 including 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	
	2006	2005	2006	2005	2006	2005
Revenue:						
Charges for services	\$ -	\$ -	\$ 41,065,255	\$ 40,721,744	\$ 41,065,255	\$ 40,721,744
Program Investment						
Income	856,473	505,829	9,227,060	7,883,622	10,083,533	8,389,451
Tax/Grant/Federal						
Revenue	<u>17,262,523</u>	<u>13,465,115</u>	<u>118,434,964</u>	<u>106,445,936</u>	<u>135,697,487</u>	<u>119,911,051</u>
Total revenue	18,118,996	13,970,944	168,727,279	155,051,302	186,846,275	169,022,246
Expenses	10,567,022	9,505,643	150,750,014	147,744,256	161,317,036	157,249,899
Transfers between						
Funds	(400,000)	(300,000)	400,000	300,000	-	-
Extraordinary Item:						
Loss on early						
extinguishment						
of debt	<u>-</u>	<u>-</u>	<u>539,125</u>	<u>556,152</u>	<u>539,125</u>	<u>556,152</u>
Increase in net assets	<u>\$ 7,151,974</u>	<u>\$ 4,165,301</u>	<u>\$ 17,838,140</u>	<u>\$ 7,050,894</u>	<u>\$ 24,990,114</u>	<u>\$ 11,216,195</u>

Revenues of the Authority's governmental activities were derived from a documentary stamp tax and investment income. All expenditures were grants. Revenues of the Authority's business-type activities were primarily from charges for services (\$41,065,255) and program investment (\$9,227,060). Charges for services consist primarily of interest income on loans, HUD administrative fees, tax credit application fees and various other small fees, such as monitoring and servicing fees. Program investment income came primarily from the bond programs and the income is restricted to those programs.

Direct expenses of the Authority's business-type activities consist of two major types-housing assistance payments and bond interest. All administrative expenses were incurred in the Authority's General Operating Fund. Program revenue adequately covers all expenses of the Authority. Program revenue exceeded expenses by \$17,838,140 for the business-type activities. Net assets of the Authority increased from the previous year by \$25,990,114.

### Debt Administration

The Authority's total liabilities increased \$49,049,337 to \$704,886,187. Long-term debt increased \$40,049,337 to \$643,718,945. The long-term debt consists of bonds payable at \$630,358,694, notes payable at \$13,090,000 and accrued compensated absences in the amount of \$270,251.

## **Economic Factors**

The Authority's financial condition remains consistent in comparison with prior years. The increase in net assets is generally in the same range as previous 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 all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the following:

South Carolina State Housing Finance and Development Authority  
Finance Division  
300-C Outlet Pointe Boulevard  
Columbia, South Carolina 29210

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Totals</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 21,956,675	\$ 18,441,561	\$ 40,398,236
Restricted assets:			
Cash and cash equivalents	-	55,087,454	55,087,454
Accounts receivable:			
Due from State Agency	3,292,286	-	3,292,286
Due from grantor	-	1,049,227	1,049,227
Other	-	369,754	369,754
Loans receivable	231,750	50,348,056	50,579,806
Accrued interest receivable:			
Loans	22,899	8,860	31,759
Deposits and investments	-	13,800	13,800
Other assets	-	2,922	2,922
Total current assets	<u>25,503,610</u>	<u>125,321,634</u>	<u>150,825,244</u>
Non-current assets:			
Loans receivable, net of current portion and unamortized discounts	8,443,683	55,509,819	63,953,502
Restricted assets:			
Cash and cash equivalents	-	246,581,737	246,581,737
Investments	-	2,374,112	2,374,112
Loans receivable, net of unamortized discounts	-	522,041,666	522,041,666
Accrued interest receivable:			
Deposits and investments	-	1,563,848	1,563,848
Loans	-	3,897,837	3,897,837
Unamortized bond issuance costs	-	5,662,174	5,662,174
Capital assets, net of accumulated depreciation	-	865,230	865,230
Total noncurrent assets	<u>8,443,683</u>	<u>838,496,423</u>	<u>846,940,106</u>
Total assets	<u>33,947,293</u>	<u>963,818,057</u>	<u>997,765,350</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

(CONTINUED)

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Totals</b>
<b>Liabilities</b>			
Current liabilities:			
Liabilities payable from restricted assets:			
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	-	30,720,000	30,720,000
Accrued interest payable on bonds	-	14,686,738	14,686,738
Mortgage escrows	1,925	9,680,716	9,682,641
Other	-	493,596	493,596
Total liabilities payable from restricted current assets	1,925	55,581,050	55,582,975
Accrued compensated absences	-	439,661	439,661
Accrued salaries and related payroll expenses	-	435,101	435,101
Due to grantor	-	14,209	14,209
Other liabilities	-	785,565	785,565
Total current liabilities	1,925	57,255,586	57,257,511
Non-current liabilities:			
Accrued compensated absences, net of current portion	-	270,251	270,251
Notes payable	-	13,090,000	13,090,000
Bonds payable, net of current portion on unamortized premiums and discounts and deferral losses on refundings	-	630,858,694	630,858,694
Total noncurrent liabilities	-	644,218,945	644,218,945
Total liabilities	1,925	701,474,531	701,476,456
<b>Net Assets</b>			
Invested in capital assets	-	865,230	865,230
Restricted for:			
Debt service	-	41,590,825	41,590,825
Bond reserves	-	8,153,846	8,153,846
Special programs	33,945,368	192,671,448	226,616,816
Unrestricted	-	19,062,177	19,062,177
Total net assets	<u>\$ 33,945,368</u>	<u>\$ 262,343,526</u>	<u>\$ 296,288,894</u>

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

	<u>Program Revenue</u>		<u>Net (Expenses) Revenue and Changes in Net Assets</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Functions/Programs</b>						
Governmental activities:						
Housing Trust Fund	\$ 10,567,022	\$ -	\$ 1,045,158	\$ (9,521,864)	\$ -	\$ (9,521,864)
Total governmental activities	<u>10,567,022</u>	<u>-</u>	<u>1,045,158</u>	<u>(9,521,864)</u>	<u>-</u>	<u>(9,521,864)</u>
Business-type activities:						
Administrative	9,548,543	8,418,229	-	-	(1,130,314)	(1,130,314)
Single-Family Mortgage Loan Programs	33,643,849	32,012,778	8,831,032	-	7,199,961	7,199,961
Multi-Family Mortgage Loan Programs	19,221	116,614	241,166	-	338,559	338,559
Multi-Family Federal Assistance Programs	107,452,539	-	118,434,964	-	10,982,425	10,982,425
Program Fund Programs	85,862	419,204	253,292	-	586,634	586,634
Total business-type activities	<u>150,750,014</u>	<u>40,966,825</u>	<u>127,760,454</u>	<u>-</u>	<u>17,977,265</u>	<u>17,977,265</u>
Total functions/programs	<u>\$ 161,317,036</u>	<u>\$ 40,966,825</u>	<u>\$ 128,805,612</u>	<u>(9,521,864)</u>	<u>17,977,265</u>	<u>8,455,401</u>
General revenue:						
Documentary stamp taxes				17,073,838	-	17,073,838
Transfers between activities				(400,000)	400,000	-
Extraordinary item:						
Loss on early extinguishment of debt				-	(539,125)	(539,125)
Total general revenue, transfers, and extraordinary items				<u>16,673,838</u>	<u>(139,125)</u>	<u>16,534,713</u>
Change in net assets				7,151,974	17,838,140	24,990,114
Net assets, at beginning of year, as restated				<u>26,793,394</u>	<u>244,505,386</u>	<u>271,298,780</u>
Net assets, at end of year				<u>\$ 33,945,368</u>	<u>\$ 262,343,526</u>	<u>\$ 296,288,894</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	<b>Housing Trust Fund</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 21,956,675
Accounts receivable:	
Due from State Agency	3,292,286
Loans receivable	231,750
Accrued interest receivable:	
Loans	22,899
Total current assets	25,503,610
Non-current assets:	
Loans receivable, net of current portion	8,443,683
Total non-current assets	8,443,683
Total assets	\$ 33,947,293
<b>Liabilities and Fund Balance</b>	
Current liabilities:	
Mortgage escrows	\$ 1,925
Total current liabilities	1,925
Fund Balance:	
Reserved for housing projects and development	33,945,368
Total fund balance	33,945,368
Total liabilities and fund balance	\$ 33,947,293

*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, 2006

	<u>Housing Trust Fund</u>
<b>Revenue</b>	
Documentary stamp taxes	\$ 17,073,838
Interest on loans	188,685
Interest on deposits and investments	856,473
Total revenue	<u>18,118,996</u>
<b>Expenditures:</b>	
Grants for housing trust programs	10,567,022
Total expenditures	<u>10,567,022</u>
Excess of revenue over expenditures	<u>7,551,974</u>
<b>Other Financing Sources (Uses)</b>	
Transfer to General Operating Fund	(400,000)
Total other financing sources (uses)	<u>(400,000)</u>
Net change in fund balance	7,151,974
Fund balance, at beginning of year	<u>26,793,394</u>
Fund balance, at end of year	<u><u>\$ 33,945,368</u></u>

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2006

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Eliminations	Totals
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 10,120,240	\$ -	\$ 1,620,914	\$ 6,700,407	\$ -	\$ 18,441,561
Restricted assets:						
Cash and cash equivalents	-	55,087,454	-	-	-	55,087,454
Accounts receivable:						
Due from grantor	1,049,227	-	-	-	-	1,049,227
Other	139,754	-	230,000	-	-	369,754
Due from other funds	3,275,221	13,365	-	123,070	(3,411,656)	-
Loans receivable	2,182,552	47,334,811	-	830,693	-	50,348,056
Accrued interest receivable:						
Loans	-	-	-	8,860	-	8,860
Deposits and investments	-	-	9,225	4,575	-	13,800
Other assets	2,922	-	-	-	-	2,922
Total current assets	<u>16,769,916</u>	<u>102,435,630</u>	<u>1,860,139</u>	<u>7,667,605</u>	<u>(3,411,656)</u>	<u>125,321,634</u>
Non-current assets:						
Loans receivable, net of current portion and unamortized discounts	48,941,391	-	-	6,568,428	-	55,509,819
Restricted assets:						
Cash and cash equivalents	-	246,581,737	-	-	-	246,581,737
Investments	-	2,374,112	-	-	-	2,374,112
Loans receivable, net of unamortized discounts	-	522,041,666	-	-	-	522,041,666
Accrued interest receivable:						
Investments	-	1,563,848	-	-	-	1,563,848
Loans	-	3,897,837	-	-	-	3,897,837
Unamortized bond issuance costs	-	5,662,174	-	-	-	5,662,174
Capital assets, net of accumulated depreciation	865,230	-	-	-	-	865,230
Total noncurrent assets	<u>49,806,621</u>	<u>782,121,374</u>	<u>-</u>	<u>6,568,428</u>	<u>-</u>	<u>838,496,423</u>
Total assets	<u>66,576,537</u>	<u>884,557,004</u>	<u>1,860,139</u>	<u>14,236,033</u>	<u>(3,411,656)</u>	<u>963,818,057</u>

(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
<b>Liabilities</b>						
Current liabilities:						
Liabilities payable from restricted assets:						
Bonds payable	-	30,720,000	-	-	-	30,720,000
Accrued interest payable on bonds	-	14,686,738	-	-	-	14,686,738
Mortgage escrows	-	9,680,716	-	-	-	9,680,716
Other	-	-	493,596	-	-	493,596
Total liabilities payable from restricted assets	-	55,087,454	493,596	-	-	55,581,050
Accrued compensated absences	439,661	-	-	-	-	439,661
Accrued salaries and related payroll expenses	435,101	-	-	-	-	435,101
Due to grantor	14,209	-	-	-	-	14,209
Due to other funds	-	3,411,656	-	-	(3,411,656)	-
Other liabilities	292,386	493,179	-	-	-	785,565
Total current liabilities	1,181,357	58,992,289	493,596	-	(3,411,656)	57,255,586
Non-current liabilities:						
Accrued compensated absences, net of current portion						
	270,251	-	-	-	-	270,251
Notes payable	-	13,090,000	-	-	-	13,090,000
Bonds payable, net of current unamortized premiums portion and discounts and deferred losses on refundings						
	-	630,858,694	-	-	-	630,858,694
Total noncurrent liabilities	270,251	643,948,694	-	-	-	644,218,945
Total liabilities	1,451,608	702,940,983	493,596	-	(3,411,656)	701,474,531
<b>Net Assets</b>						
Invested in capital assets	865,230	-	-	-	-	865,230
Restricted for:						
Debt service	-	41,590,825	-	-	-	41,590,825
Bond reserves	-	8,153,846	-	-	-	8,153,846
Special programs	46,564,065	131,871,350	-	14,236,033	-	192,671,448
Unrestricted	17,695,634	-	1,366,543	-	-	19,062,177
Total net assets	\$ 65,124,929	\$ 181,616,021	\$ 1,366,543	\$ 14,236,033	\$ -	\$ 262,343,526

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, 2006

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
<b>Operating Revenue</b>					
Interest and other charges on loans	\$ 449,198	\$ 32,012,778	\$ 36,045	\$ 105,463	\$ 32,603,484
Interest on deposits and investments	32,818	8,699,784	241,166	253,292	9,227,060
Administrative fees and other	7,936,213	131,248	80,569	313,741	8,461,771
Total operating revenue	<u>8,418,229</u>	<u>40,843,810</u>	<u>357,780</u>	<u>672,496</u>	<u>50,292,315</u>
<b>Operating Expenses</b>					
Bond interest	-	30,873,101	15,121	-	30,888,222
Program services	-	2,260,831	4,100	85,862	2,350,793
General and administrative	9,409,940	-	-	-	9,409,940
Bond issuance cost amortization	-	256,124	-	-	256,124
Depreciation of capital assets	138,603	-	-	-	138,603
Other expenses	-	253,793	-	-	253,793
Total operating expenses	<u>9,548,543</u>	<u>33,643,849</u>	<u>19,221</u>	<u>85,862</u>	<u>43,297,475</u>
<b>Operating Income (Loss)</b>	<u>(1,130,314)</u>	<u>7,199,961</u>	<u>338,559</u>	<u>586,634</u>	<u>6,994,840</u>
<b>NonOperating Revenue (Expenses)</b>					
Federal grant and contract revenue	118,434,964	-	-	-	118,434,964
Housing assistance payments and grant awards disbursed	(107,452,539)	-	-	-	(107,452,539)
Total nonoperating revenue (expenses)	<u>10,982,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,982,425</u>
<b>Income Before Operating Transfers and Extraordinary Items</b>	<u>9,852,111</u>	<u>7,199,961</u>	<u>338,559</u>	<u>586,634</u>	<u>17,977,265</u>
<b>Transfers</b>					
Transfers in	12,920,945	-	-	91,088	13,012,033
Transfers out	-	(5,398,192)	(5,931,903)	(1,281,938)	(12,612,033)
Total transfers	<u>12,920,945</u>	<u>(5,398,192)</u>	<u>(5,931,903)</u>	<u>(1,190,850)</u>	<u>400,000</u>
<b>Income (Loss) Before Extraordinary Item</b>	<u>22,773,056</u>	<u>1,801,769</u>	<u>(5,593,344)</u>	<u>(604,216)</u>	<u>18,377,265</u>
<b>Extraordinary Item</b>					
Loss on early extinguishments of debt	-	(514,087)	(25,038)	-	(539,125)
(Increase) decrease in net assets	22,773,056	1,287,682	(5,618,382)	(604,216)	17,838,140
Net assets, at beginning of year, as restated	<u>42,351,873</u>	<u>180,328,339</u>	<u>6,984,925</u>	<u>14,840,249</u>	<u>244,505,386</u>
Net assets, at end of year	<u>\$ 65,124,929</u>	<u>\$ 181,616,021</u>	<u>\$ 1,366,543</u>	<u>\$ 14,236,033</u>	<u>\$ 262,343,526</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2006

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
<b>Cash Flows From Operating Activities</b>					
Receipt of loan payments	\$ 1,262,085	\$ 97,696,874	\$ 1,936,272	\$ 1,566,464	\$ 102,461,695
Purchase/origination of new loans	(25,791,114)	(114,805,069)	-	(1,899,000)	(142,495,183)
Other receipts	3,801,691	-	79,739	177,577	4,059,007
Payments to employees	(5,145,886)	-	-	-	(5,145,886)
Payments to vendors	(3,723,777)	(1,571,779)	(5,197)	(6,004)	(5,306,757)
Payments to customers	-	-	(688,475)	(1,831)	(690,306)
Net cash flows provided (used) for operating activities	<u>(29,597,001)</u>	<u>(18,679,974)</u>	<u>1,322,339</u>	<u>(162,794)</u>	<u>(47,117,430)</u>
<b>Cash Flows from Capital Financing Activities</b>					
Purchase of equipment	(151,821)	-	-	-	(151,821)
Net cash flows provided (used) for operating activities	<u>(151,821)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(151,821)</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfers from other programs	12,920,946	-	-	-	12,920,946
Transfers to other programs	-	(5,398,192)	(5,931,903)	(1,190,851)	(12,520,946)
Loans from other programs	-	3,100,000	-	-	3,100,000
Receipts from HUD	118,434,963	-	-	-	118,434,963
Payments of housing assistance and grants	(107,452,539)	-	-	-	(107,452,539)
Proceeds from sale of bonds and notes	-	113,984,976	-	-	113,984,976
Principal payments on bonds payable	-	(69,110,000)	(1,605,000)	-	(70,715,000)
Interest payments on bonds payable	-	(30,873,478)	(18,346)	-	(30,891,824)
Payment on bond issuance costs	-	(831,176)	-	-	(831,176)
Net cash provided (used) for noncapital activities	<u>23,903,370</u>	<u>10,872,130</u>	<u>(7,555,249)</u>	<u>(1,190,851)</u>	<u>26,029,400</u>
<b>Cash Flows from Investing Activities</b>					
Sale (Purchase) of Investments	-	1,766,389	231,619	-	1,998,008
Income on deposits and investments	-	8,280,419	268,981	793,722	9,343,122
Cash flows from investing activities	<u>-</u>	<u>10,046,808</u>	<u>500,600</u>	<u>793,722</u>	<u>11,341,130</u>
Net increase (decrease) in cash and cash equivalents	(5,845,452)	2,238,964	(5,732,310)	(559,923)	(9,898,721)
Cash and cash equivalents, beginning of year	<u>15,965,692</u>	<u>299,430,227</u>	<u>7,353,224</u>	<u>7,260,330</u>	<u>330,009,473</u>
Cash and cash equivalents, end of year	<u>\$ 10,120,240</u>	<u>\$ 301,669,191</u>	<u>\$ 1,620,914</u>	<u>\$ 6,700,407</u>	<u>\$ 320,110,752</u>

(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
<b>Reconciliation of Net Operating Income (Loss) to Net Cash Flows Provided by (used for) Operating Activities:</b>					
Net operating income (loss)	\$ (1,130,314)	\$ 7,199,961	\$ 338,559	\$ 586,634	\$ 6,994,840
Adjustments to reconcile net operating income (loss) to net cash flows provided by (used for) operating activities:					
Depreciation	138,603	-	-	-	138,603
Loss on disposal of capital assets	773	-	-	-	773
Bond premium amortization	-	(130,106)	-	-	(130,106)
Bond issuance cost amortization	-	256,124	-	-	256,124
Bonds interest expense reclassified to noncapital financing activities	-	30,873,101	15,121	-	30,888,222
Income on deposits and investments reclassified to investing activities	-	(8,699,784)	(241,166)	(253,292)	(9,194,242)
Receipt of loan principal payments	812,887	63,477,121	1,331,639	1,416,315	67,037,962
Purchase/origination of new loans	(25,791,114)	(114,805,069)	-	(1,899,000)	(142,495,183)
Loss on sale of investments	-	7,209	-	-	7,209
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(4,167,339)	(63,171)	-	106,921	(4,123,589)
(Increase) decrease in due from other funds	-	-	-	(123,070)	(123,070)
Increase (decrease) in accounts payable, accrued expenses and due to grantor	539,503	-	-	-	539,503
Increase (decrease) in mortgage escrows	-	2,909,465	(148,082)	(301)	2,761,082
Increase (decrease) in other liabilities	-	295,175	-	-	295,175
(Increase) decrease in accrued interest receivable-loans	-	-	26,268	2,999	29,267
Total adjustments	(28,466,687)	(25,879,935)	983,780	(749,428)	(54,112,270)
Net cash provided by (used for) operating activities	<u>\$ (29,597,001)</u>	<u>\$ (18,679,974)</u>	<u>\$ 1,322,339</u>	<u>\$ (162,794)</u>	<u>\$ (47,117,430)</u>

**Supplemental Information  
Operating Activities**

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

General Operating Fund	449,198
Single Family Finance Programs Fund	32,012,778
Multi-Family Finance Program Fund	36,044
Program Fund	105,463
Total	<u>\$ 32,603,483</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, 2005 that is included in these financial statements in "investment income" follows:

Program Fund	\$ 11,020
Single Family Finance Program Fund	<u>264,708</u>
Total	<u>\$ 275,728</u>

**Noncash Noncapital Financing Activities**

- a. Interest payments on bonds do not include \$102,249 amortization of bond discounts and \$181,278 of amortization of deferred losses on refundings of debt that were included in operating expense as bond interest in the Single Family Finance Program Fund.
- b. Unamortized bond discounts of \$81,086 and unamortized bond issuance costs of \$433,000 were written off as an extraordinary loss in the Single Family Finance Programs Fund.
- c. Unamortized bond discounts of \$6,498 and unamortized bond issuance cost of \$18,450 were written off as an extraordinary loss in the Multi-Family Finance Program Fund.

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

**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 of the Authority's accounting policies are described below.

**Reporting Entity**

The Authority, a primary entity, is part of the primary government of the State of South Carolina and 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, 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.

-CONTINUED-

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. The Authority had a blended component unit in the past, the State Housing Corporation. All assets of the State Housing Corporation were transferred to the Authority and it was legally dissolved during the fiscal year ended June 30, 2004.

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 or any political subdivision there of 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 funding 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) programs, other fee type income, and interest income. 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 housing assistance contributions earned from HUD and payments made by the Authority to qualified recipients under the HUD programs.

**The Single Family Finance Programs Fund** accounts for the financing activities of the Authority's 1979 Single Family Mortgage Purchase Bond Indenture, 1982 Homeownership Mortgage Purchase Bond Resolution and 1994 Mortgage Revenue Bonds Indenture. The proceeds of each series of bonds issued under the three programs are used to purchase mortgage loans made to the State's moderate-to-low income citizens who meet Federal and State eligibility requirements. The programs generate income to cover the costs of administration and debt service on the bonds. Excess funds 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 have been purchased covering projects that house low income citizens meeting Federal eligibility requirements. The bonds and mortgages were all 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 could be transferred to other programs at the discretion of the Authority and were transferred to the General Operating 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** accounts for administrative and other miscellaneous type fees not accounted for elsewhere. This fund is used by the Authority to finance special projects or other expenses authorized by the Authority's Board of Commissioners. The Authority's Board of Commissioners designated by resolution \$5,900,000 for special programs effective June 30, 1992. These funds were used to make loans to organizations for low-income housing. Income generated by the fund currently is used to make down payment assistance loans, forgivable and repayable, to qualifying individuals.

**Basis of Accounting and Reporting**

All governmental funds are accounted for using a 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.

All proprietary funds are accounted for on a 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 state governmental entities. Proprietary fund activities are reported using the accrual basis method 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 receipt of loan receivable payments related to investment and mortgage loan assets in the single family and Multi-Family finance program funds are required to be used for the related bonds payable 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 and Multi-family Finance Programs 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.

HUD advances to the Authority sufficient funds to cover the current month's housing assistance payments and the Authority's costs of administration of 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 grants to local governments and non-profits 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**

The amount with the State's Treasurer, cash in banks and in the financial statements as "cash and cash equivalents" represent cash on deposit in banks, cash on deposit with the State Treasurer, cash invested in various instruments with banks, and 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's special deposit accounts is posted to the Authority's account at the end of each month and is retained. 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 included interest earnings at the stated rate, realized gains/losses, 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 included some long-term investments, it operates as a demand deposit account, therefore, for credit risk information pertaining to the cash management pool, see the deposits disclosures in *Note 2*.

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 \$17 million in the General Operating Fund are insured with various mortgage insurance carriers at specified percentages of the loan amount varying from 25% to 100%. However, once the loan to property value ratio falls below 78% to 80%, borrowers have the right to cancel the mortgage insurance if certain conditions, as provided by federal law and/or the insurance carrier, have been met. The Authority considers the mortgaged property as adequate collateral against potential loan losses once the conditions for cancellation of mortgage insurance have been met.

Management is of the opinion that the mortgage insurance coverage is adequate to cover any 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. Loans made from the Housing Trust Fund, and a substantial portion of the loans made from the Program Fund and General Operating Fund are not insured. The Authority considers the mortgaged property as adequate collateral against significant potential losses for those 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 in excess of \$5,000 and a useful life in excess of 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.

**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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Compensated Absences**

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued vacation leave earned for which the employees are entitled to paid time off or payment at termination. The Authority calculates the compensated absences liability based on recorded balances of unused leave, for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is reported in accounts payable and accrued expenses in the General Operating Fund.

**Rebatable Arbitrage**

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting 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 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 no arbitrage expense for the year ended June 30, 2006.

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 including restricted 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 - Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - All other assets that do not meet the definition of "restricted" or "invested in capital assets."

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are 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 that affect certain reported amounts of assets, liabilities, revenues and expenses and affect disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could 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, 2006, the Authority's deposits had a carrying amount of \$17,091,010 and a bank balance of \$18,971,687. 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: Cash and cash equivalents: Unrestricted                     \$ 40,398,236 Restricted                         55,087,454	Deposits: Deposits held by State Treasurer                         \$ 95,173,528 Other Deposits                     27,021,985 Total deposits <u>122,195,513</u>
Non-current assets: Cash and cash equivalents: Restricted                         246,581,737 Investments: Unrestricted Restricted <u>2,374,112</u>	Investments: Treasurer                         - Other Investments <u>222,246,026</u> Total investments <u>222,246,026</u>
Total <u>\$ 344,441,539</u>	Total <u>\$ 344,441,539</u>

**Deposits Held by State Treasurer**

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer 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, 2006, the Authority's investment balances were as follows:

	<b>Fair Value</b>	<b>Less Than 1 Year</b>	<b>Greater Than 1 Year</b>
Tri-Party Repurchase Agreements	\$ 47,982,988	\$ 47,982,988	\$ -
Guaranteed Investment Contracts	155,818,738	155,818,738	-
Certificate of Deposit	7,027,887	7,027,887	-
Federal National Mortgage Association and Federal Home Loan Bank Discount Notes	9,042,301	9,042,301	-
U.S. Treasury Bonds	2,374,112	-	2,374,112
<b>Totals</b>	<b>\$ 222,246,026</b>	<b>\$ 219,871,914</b>	<b>\$ 2,374,112</b>

**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 in value because of changes in interest rates. As a means of limiting its exposure to interest rate risk, the revenue funds for each bond issue is tied to a guaranteed investment contract (GIC), which runs for the life of the bonds. The interest rate of each GIC is matched as close to the bond yield as possible and is guaranteed for the life of the bonds so as to limit exposure in each issue. The Authority will also not invest in any certificate of deposit with a maturity of more than 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 significant portion of its funds on deposit in the State Treasurer's Investment Pool, and although the Pool itself is unrated, it is invested according to requirements of State law, which only allows limited investments in instruments subject to credit risk. It requires investments in obligations of corporations, state or political subdivisions of the United States to have an investment grade rating of 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 that are in the possession of an outside party. As of June 30, 2006, the Authority had \$8,960,032 held by the Trustee as cash, which is going to be used as part of the debt service payment scheduled for July 1, 2006. 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 that the Authority may invest in any one issuer. More than 5% of the Authority's investments are in the following investments: *Guaranteed Investment Contracts 70.11%, and Tri-Party Repo's 21.59%*.

**Restricted Deposits and Investments**

Under provisions of applicable debt indentures, the Authority is required to restrict sufficient assets with an independent trustee (Bank of New York) in the single family and Multi-Family program funds to meet reserve requirements in order to pay the debt service on bonds. The required and actual reserve amounts for each program at June 30, 2006 are as follows:

	<b>Reserve Requirements</b>	<b>Actual Funding</b>	<b>Over (Short)</b>
Single Family Mortgage Reserve Funds-1998	\$ 3,144,750	\$ 3,209,250	\$ 64,500
Mortgage Revenue Bond Reserve Funds	3,193,450	8,153,846	4,960,396
Totals	\$ 6,338,200	\$ 11,363,096	\$ 5,024,896

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  
2007-2036 plus interest ranging from 1%-5.5% per  
payable in monthly installments of principal and interest,  
as provided in the notes. \$ 8,675,433

Total governmental funds \$ 8,675,433

**Proprietary Funds**

General Operating Fund notes maturing in various dates  
from 2006-2036 plus interest ranging from 0%-8% per  
annum, payable in installments of principal and interest  
as provided in the notes. \$ 51,123,943

Single Family Finance Programs notes maturing on dates  
from 2006-2036 plus interest ranging from 4%-12.25% per  
annum, payable in monthly installments of principal and  
interest. 569,376,477

Program Fund notes maturing on various dates from 2002  
to 2031 plus interest ranging from 1% - 8% per annum;  
payable in installments of principal and interest as provided  
in the notes. 7,399,121

Total proprietary funds \$ 627,899,541

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, 2006 was as follows:

	<b>Beginning Balances July 1, 2005</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances June 30, 2006</b>
Equipment and furniture	\$ 1,098,361	\$ 151,821	\$ (5,415)	\$ 1,244,767
Accumulated depreciation	(245,575)	(138,603)	4,641	(379,537)
Capital assets, net of accumulated depreciation	<u>\$ 852,786</u>	<u>\$ 13,218</u>	<u>\$ (774)</u>	<u>\$ 865,230</u>

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

Long-term liabilities activity for the year ended June 30, 2006 were as follows:

	<b>Beginning Balances July 1, 2005</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balances June 30, 2006</b>	<b>Due within One Year</b>
Bonds payable	\$ 630,440,000	\$ 98,000,000	\$ 70,715,000	\$ 657,725,000	\$ 30,720,000
Unamortized premiums and discounts	3,487,374	3,014,256	130,106	6,371,524	-
Deferred amount on refunding	(2,699,108)	181,278	-	(2,517,830)	-
Total bonds payable	<u>631,228,266</u>	<u>101,195,534</u>	<u>70,845,106</u>	<u>661,578,694</u>	<u>30,720,000</u>
Notes Payable	-	13,090,000	-	13,090,000	-
Accrued compensated absences	612,921	522,127	425,136	709,912	439,661
Totals	<u>\$ 631,841,187</u>	<u>\$ 114,807,661</u>	<u>\$ 71,270,242</u>	<u>\$ 675,378,606</u>	<u>\$ 31,159,661</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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**6. Bonds and Notes Payable**

At June 30, 2006, 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 (4.95% to 5.275%) due 2018-2036	09/11/98	\$ 106,975,000	\$ 104,825,000
Plus, unamortized premium			1,116,510
			105,941,510
<b>Mortgage Revenue Bonds</b>			
1994A (5.375% to 6.75%) due 2002-2026	10/20/94	30,000,000	4,520,000
1995A (5.45% to 6.70%) due 2002-2027	03/01/95	25,000,000	5,505,000
1996A (5.00% to 6.35%) due 2002-2028	05/01/96	25,000,000	7,055,000
1997A (4.65% to 5.90%) due 2002-2029	06/01/97	30,000,000	15,395,000
1999A (3.90% to 5.40%) due 2002-2030	12/23/98	37,700,000	16,305,000
1999B (5.10% to 8.30%) due 2002-2030	11/01/99	139,910,000	59,175,000
2000A (5.40% to 6.40%) due 2003-2032	06/01/00	121,435,000	45,115,000
2001A (3.75% to 5.50%) due 2004-2033	08/01/01	63,455,000	44,495,000
2002A (2.20% to 4.95%) due 2005-2034	10/16/02	39,500,000	33,285,000
2003A (1.60% to 5.45%) due 2005-2034	09/10/03	50,000,000	44,515,000
2004A (1.65% to 5.50%) due 2005-2035	07/01/04	100,000,000	97,815,000
2005A (2.90% to 5.00%) due 2006-2036	06/15/05	81,720,000	81,720,000
2006A/B (3.70% to 5.15%) due 2008-2037	06/30/06	98,000,000	98,000,000
			552,900,000
Plus: Unamortized premiums			5,498,783
Less: Unamortized discounts			(243,769)
Unamortized deferred losses on refundings on debt			(2,517,830)
			555,637,184
Total bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			\$ 661,578,694

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 obligation as of June 30, 2006 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 30,720,000	\$ 31,281,898	\$ 62,001,898
2008	9,560,000	32,925,432	42,485,432
2009	11,450,000	32,476,719	43,926,719
2010	12,165,000	31,936,484	44,101,484
2011	12,620,000	31,353,312	43,973,312
2011-2016	74,020,000	146,448,099	220,468,099
2016-2021	105,050,000	123,082,327	228,132,327
2021-2026	130,855,000	89,995,009	220,850,009
2026-2031	136,745,000	54,111,824	190,856,824
2031-2036	122,665,000	18,396,067	141,061,067
2036-2041	11,875,000	568,938	12,443,938
Total	<u>\$ 657,725,000</u>	<u>\$ 592,576,109</u>	<u>\$ 1,250,301,109</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 and Multifamily Finance Programs bonds the Authority redeemed prior to their maturity during the fiscal year ended June 30, 2006:

Single Family Finance Programs:

Single Family Mortgage Revenue Bonds

Series 1998	\$ 2,150,000
	2,150,000

Mortgage Revenue Bonds

Series 1994 A	3,670,000
Series 1995 A	3,615,000
Series 1996 A	1,900,000
Series 1997 A	1,980,000
Series 1999 A	7,985,000
Series 1999 B	13,320,000
Series 2000 A	10,275,000
Series 2001 A	7,815,000
Series 2002 A	2,815,000
Series 2003 A	4,570,000
Series 2004 A	940,000
	58,885,000

Multi-family Residential Revenue Bonds

Series 1992 A	1,605,000
	1,605,000

Totals	\$ 62,640,000
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SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**6. Bonds and Notes Payable (Continued)**

Bonds, redeemed at par, resulted in unamortized bond discounts and bond issuance costs being written off and reflected as a loss on early extinguishments of debt for the year ended June 30, 2006 as follows:

	<b>Discounts</b>	<b>Issuance Costs</b>	<b>Total</b>
Single Family Finance Program bonds	\$ 81,087	\$ 433,000	\$ 514,087
Multi-family Residential Revenue bonds	6,498	18,540	25,038
Totals	\$ 87,585	\$ 451,540	\$ 539,125

Amortization of bond discounts for the year ended June 30, 2006 that were included in bond interest expense in the proprietary fund follow:

Single Family Mortgage Revenue	\$ 102,249
Multi-family Residential Revenue	17,031
	\$ 119,280

Bond premium amortized for the year ended June 30, 2006 and attributable to the Single Family Finance Programs Fund bonds totaled \$130,106 and was reported as a single item revenue amount in the proprietary fund.

Amortization of deferred losses on refundings of debt of \$181,278 for the year ended June 30, 2006 and attributable to the Single Family Finance Programs Fund bonds was included in bond interest expense in the proprietary fund.

On June 30, 2006, the Authority issued Series 2006B notes in the amount of \$13,090,000. These notes mature on July 23, 2007. The proceeds of these notes will not be used to purchase Single Family Mortgage Loans under the Single Family Finance programs until the notes are current refunded at or prior to their stated maturity date.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**7. Leases**

At June 30, 2006, 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 limited to no more than 3.1% increase per year.

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 follow:

<u>Year Ending June 30,</u>	
2007	\$ 277,442
2008	282,653
2009	285,466
2010	281,994
2011	290,444
	<u>\$ 1,417,999</u>

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 \$131,768 in fiscal year 2006.

The Authority incurred rental expense of approximately \$281,427 under the aforementioned leases for the fiscal year ended June 30, 2006.

The above information given is for existing leases only and is not a forecast of future rental expense. In the normal course of business, operating leases are generally renewed or replaced with other 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 on a "pay per copy" plan. The leases expire in fiscal year ending June 30, 2006. Approximately \$43,065 was expended under these leases during the fiscal year ended June 30, 2006.

**8. Transactions With State Entities**

These financial statements include the following related party transactions between the Authority and the State of South Carolina and various State agencies:

- The South Carolina Department of Revenue collects documentary stamp taxes and remits \$.20 of every \$1.30 collected to the Authority for the Housing Trust Fund.
- Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking and investment functions from the State Treasurer; and legal services from the Attorney General.
- Services provided at no cost from various divisions of the State Budget and Control Board include retirement plan administration, grant services, insurance plan administration, personnel management, review, and approval of certain budget amendments, procurement services, and other centralized functions.
- Financial transactions include payments to divisions of the State Budget and Control Board for vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Payments were also made for the workers' compensation insurance coverage and unemployment compensation. The amounts applicable to 2006 expenditures 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 allowable and made in accordance with the terms of the respective bond indentures, during the year ended June 30, 2006 follow:

- \$5,398,192 from the Single Family Finance Program to the General Operating fund to pay for operating expenses and special initiatives.
- \$5,840,815 from the Multi-Family Finance Program to the General Operating Fund to fund single family mortgage loans.
- \$1,281,938 from the Program Fund to the General Operating Fund to fund single family mortgage loans.
- \$91,088 from the Multi-Family Finance Program to the Program Fund for the purchase of new loans.
- \$400,000 from the Housing Trust Fund to the General Operating Fund for administrative and operational expenses.

**10. Risk Management**

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**10. Risk Management (Continued)**

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

1. Claims of State employees for unemployment compensation benefits (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 of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

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

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

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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**10. Risk Management (Continued)**

The Authority has recorded insurance premium expenditures in the general and administrative expense category of the general operating fund.

**11. Conduit Debt**

From time to time, the Authority has issued bonds to provide mortgages for the citizens of South Carolina, for 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
<b>Fiscal Year 1985 (84/85)</b>			
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	1,021,967
<b>Fiscal Year 1987 (86/87)</b>			
07/88	Multi-Family Housing Revenue Bonds (Paces Landing Series 1988)	8,750,000	8,750,000
<b>Fiscal Year 1991 (90/91)</b>			
09/90	Multi-Family Housing Revenue Bonds 1990 Series A (Westbridge)	2,850,000	-
<b>Fiscal Year 1992 (91/92)</b>			
10/91	Multi-Family Housing Mortgage Revenue Bonds (Plum Chase)	7,000,000	-
<b>Fiscal Year 1993 (92/93)</b>			
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	2,495,000

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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**11. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 1996 (95/96)</b>			
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	4,035,000
<b>Fiscal Year 1998 (97/98)</b>			
04/98	Multi-Family Housing Revenue Refunding Bonds (Three Rivers and Edenwood Apts.)	9,535,000	-
<b>Fiscal Year 1999 (98/99)</b>			
05/99	Multi-Family Rental Housing Revenue Bonds (Ashley Apts.)	4,300,000	3,895,000
<b>Fiscal Year 2000 (99/00)</b>			
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	-
<b>Fiscal Year 2001 (00/01)</b>			
10/00	Multi-Family Rental Housing Revenue Bonds (City Heights Apts.)	6,750,000	6,390,000
10/00	Multi-Family Rental Housing Revenue Bonds (Spartanburg Terrace Apts.)	4,750,000	4,495,000
10/00	Multi-Family Housing Revenue Bonds (Piedmont Manor Apts.)	6,250,000	5,890,000
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

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**11. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 2002 (01/02)</b>			
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	2,595,000
12/01	Multi-Family Rental Housing Revenue Bonds (Cedarwood Apartments-Columbia, SC)	8,750,000	8,480,000
12/01	Multi-Family Rental Housing Revenue Bonds (Belton Woods Apts.)	5,795,000	5,415,000
<b>Fiscal Year 2003 (02/03)</b>			
12/02	Multi-Family Rental Housing Revenue Bonds (Poplar Square Apartments)	2,960,000	2,844,141
12/02	Multi-Family Rental Housing Revenue Bonds (Spring Grove Apartments Project)	7,410,000	7,325,000
<b>Fiscal Year 2004 (03/04)</b>			
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	3,000,000
04/04	Multi-Family Rental Housing Revenue Bonds (Hillandale Apartments Project)	6,660,000	6,595,000
06/04	Multi-Family Rental Housing Revenue Bonds (Greenville Arms Apartments Project)	4,625,000	4,245,000
06/04	Multi-Family Rental Housing Revenue Bonds (Canebreak Apartments Project)	4,500,000	4,500,000

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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**11. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 2005 (04/05)</b>			
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	2,740,000
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	11,350,000
5/05	Multifamily Rental Housing Revenue Bonds (Wenmont Apartments Project)	6,210,000	6,210,000
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
Total		<u>\$ 345,399,000</u>	<u>\$ 270,316,108</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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**12. Pension Plan**

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

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

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**12. Pension Plan (Continued)**

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for 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.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0% of all compensation. Effective July 1, 2004 the employer contribution rate became 10.95%, which consists of 7.55% for basic retirement contribution, a 3.25% 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, 2006, 2005, and 2004 were approximately \$377,000, \$376,000 and \$363,000 respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the Authority paid employer group life insurance contributions of approximately \$7,500 for the current fiscal year at the rate of .15% of compensation.

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

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employer/employee contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service 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

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**12. Pension Plan (Continued)**

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Authority's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Authority's liability under the pension plans is limited to the amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Authority recognizes no contingent liability for unfunded costs associated with participation in the plans. At retirement, employees participating in the SCRS may receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

**13. Post Employment And Other Employee Benefits**

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 who 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

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**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 \$377,000 for the year ended June 30, 2006. As discussed in *Note 12*, the Authority paid approximately \$162,000 applicable to the 3.25% 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 employers of its political subdivisions. Certain employees of the Authority have elected to participate. 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 did not make any contributions for the fiscal year ended June 30, 2006.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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**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 upon retirement and again at the end of the program period for annual vacation leave earned during the program period. The Authority paid \$5,920 under the TERI programs for the year ended June 30, 2006.

In fiscal year 2006, the Authority implemented a Retirement Incentive/Voluntary Separation program. Expenses paid under this program were \$19,952 for the year ended June 30, 2006.

**16. Commitments**

The Authority has financial award commitments outstanding totaling approximately \$11,358,999 as of June 30, 2006 under the Housing Trust fund program.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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**17. Prior Period Adjustments**

In prior fiscal years, the General Operating Fund expensed drawdowns of funds rather than booking the drawdown as loans receivable. New loans were being booked when the loans actually closed which covered more than one fiscal year of loan drawdowns.

	<u>Proprietary Fund General Operating</u>
Net assets, July 1, 2005, as previously reported	\$ 41,739,112
Correction of errors:	
Capitalization of loan amounts previously expensed	<u>612,761</u>
Net assets, July 1, 2005, as restated	<u><u>\$ 42,351,873</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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**18. 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, 2006 is presented on the following pages.

<b>Statement of Net Assets - June 30, 2006</b>				
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Assets</b>				
Current assets:				
Restricted assets:				
Cash and cash equivalents	\$ 15,620,497	\$ 39,466,957	\$ -	\$ 55,087,454
Due from other funds	1,988,747	13,365	(1,988,747)	13,365
Loans receivable, net of unamortized discounts	9,575,677	37,759,134	-	47,334,811
Total current assets	27,184,921	77,239,456	(1,988,747)	102,435,630
Non-current assets:				
Restricted assets:				
Cash and cash equivalents	42,719,831	203,861,906	-	246,581,737
Investments	-	2,374,112	-	2,374,112
Loans receivable, net of unamortized discounts	155,244,867	366,796,799	-	522,041,666
Accrued interest receivable:				
Deposits and investments	364,198	1,199,650	-	1,563,848
Loans	848,719	3,049,118	-	3,897,837
Unamortized bond issuance costs	844,106	4,818,068	-	5,662,174
Total noncurrent assets	200,021,721	582,099,653	-	782,121,374
Total assets	227,206,642	659,339,109	(1,988,747)	884,557,004

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

<b>Statement of Net Assets - June 30, 2006</b>				
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Liabilities</b>				
Current liabilities:				
Liabilities payable from restricted assets:				
Bonds payable	3,200,000	27,520,000	-	30,720,000
Accrued interest payable on bonds	2,739,781	11,946,957	-	14,686,738
Mortgage escrows	9,680,716	-	-	9,680,716
Total liabilities payable from restricted assets	15,620,497	39,466,957	-	55,087,454
Due to other funds	20,495	5,379,908	(1,988,747)	3,411,656
Other liabilities	44,058	449,121	-	493,179
Total current liabilities	15,685,050	45,295,986	(1,988,747)	58,992,289
Non-current liabilities:				
Notes payable	-	13,090,000	-	13,090,000
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	102,741,510	528,117,184	-	630,858,694
Total noncurrent liabilities	102,741,510	541,207,184	-	643,948,694
Total Liabilities	118,426,560	586,503,170	(1,988,747)	702,940,983
<b>Net Assets</b>				
Restricted for:				
Debt service	5,939,781	35,651,044	-	41,590,825
Bond Reserves	3,209,250	4,944,596	-	8,153,846
Special Programs	99,631,051	32,240,299	-	131,871,350
Total net assets	\$ 108,780,082	\$ 72,835,939	\$ -	\$ 181,616,021

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

**Statement of Revenue, Expenses, and Changes in Net Assets - Year Ended June 30, 2006**

	<u>Single Family</u>	<u>Mortgage Revenue</u>	<u>Eliminations</u>	<u>Totals</u>
<b>Operating revenue:</b>				
Interest and other charges on loans	\$ 6,352,322	\$ 25,660,456	\$ -	\$ 32,012,778
Income on deposits and investments	2,366,750	6,333,034	-	8,699,784
Other revenue:				
Bond premium amortization	38,512	91,736	-	130,248
Other revenue	-	1,000	-	1,000
Total operating revenue	<u>8,757,584</u>	<u>32,086,226</u>	<u>-</u>	<u>40,843,810</u>
<b>Operating expenses</b>				
Bond interest	5,534,656	25,338,445	-	30,873,101
Program	340,819	1,920,012	-	2,260,831
Bond issuance cost amortization	20,178	235,946	-	256,124
Other expenses	4,880	248,913	-	253,793
Total operating expenses	<u>5,900,533</u>	<u>27,743,316</u>	<u>-</u>	<u>33,643,849</u>
<b>Operating income (loss)</b>	<u>2,857,051</u>	<u>4,342,910</u>	<u>-</u>	<u>7,199,961</u>
<b>Transfers</b>				
Transfers among programs	60,196	2,854,844	(2,915,040)	-
Transfers to other programs	(6,764,815)	(1,548,417)	2,915,040	(5,398,192)
Total transfers	<u>(6,704,619)</u>	<u>1,306,427</u>	<u>-</u>	<u>(5,398,192)</u>
Income (loss) before extraordinary item	(3,847,568)	5,649,337	-	1,801,769
Extraordinary item:				
Loss on early extinguishment of debt	(17,307)	(496,780)	-	(514,087)
Increase (decrease) in net assets	(3,864,875)	5,152,557	-	1,287,682
Net assets, at beginning of year	112,644,957	67,683,382	-	180,328,339
Net assets, at end of year	<u>\$ 108,780,082</u>	<u>\$ 72,835,939</u>	<u>\$ -</u>	<u>\$ 181,616,021</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

	<b>Statement of Cash Flows - Year Ended June 30, 2006</b>		
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Totals</b>
<b>Cash Flows From Operating Activities</b>			
Receipt of loan payments	\$ 26,166,119	\$ 71,530,755	\$ 97,696,874
Purchase/origination of new loans	(27,094,116)	(87,710,953)	(114,805,069)
Payments to vendors	(265,390)	(1,306,389)	(1,571,779)
Net cash flows provided (used) for operating activities	(1,193,387)	(17,486,587)	(18,679,974)
<b>Cash Flows From Noncapital Financing Activities</b>			
Transfers (to) from other programs	(6,072,060)	673,868	(5,398,192)
Due to other funds	-	3,100,000	3,100,000
Proceeds from sale of bonds	-	113,984,976	113,984,976
Principal payments on bonds payable	(2,150,000)	(66,960,000)	(69,110,000)
Interest payments on bonds payable	(5,589,750)	(25,283,728)	(30,873,478)
Payment on bond issuance costs	-	(831,176)	(831,176)
Net cash flows provided (used) for noncapital activities	(13,811,810)	24,683,940	10,872,130
<b>Cash Flows From Investing Activities</b>			
Sale of investments	-	1,766,389	1,766,389
Income on deposits and investments	2,143,441	6,136,978	8,280,419
Net cash flows provided (used) for investing activities	2,143,441	7,903,367	10,046,808
Net increase (decrease) in cash and cash equivalents	(12,861,756)	15,100,720	2,238,964
Cash and cash equivalents, beginning of year	71,202,086	228,228,141	299,430,227
Cash and cash equivalents, end of year	\$ 58,340,330	\$ 243,328,861	\$ 301,669,191

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

	<b>Cash Flows - Year Ended June 30, 2006</b>		
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Totals</b>
<b>Reconciliation of Net Operating Income</b>			
<b>(Loss) to Net Cash Flows Provided</b>			
<b>by (Used for) Operating Activities:</b>			
Net operating income (loss)	\$ 2,857,051	\$ 4,342,910	\$ 7,199,961
Adjustments to reconcile net operating			
income (loss) to net cash flows provided by (used for)			
operating			
activities:			
Bond premium amortization	(38,511)	(91,595)	(130,106)
Bond issuance cost amortization	20,178	235,946	256,124
Bonds interest expense reclassified			
to non-capital financing activities	5,534,656	25,338,445	30,873,101
Income on deposits and			
investments reclassified to			-
investing activities	(2,366,749)	(6,333,035)	(8,699,784)
Mortgage loan discounts amortization			-
Mortgage loan principal adjustment			-
Receipt of loan principal payments	16,751,115	46,726,006	63,477,121
Purchase/origination of new loans	(27,094,116)	(87,710,953)	(114,805,069)
Loss on early extinguishment of bonds payable		7,209	7,209
Change in assets and liabilities:			
(Increase) decrease in accounts			
receivable	239,611	(302,782)	(63,171)
Increase (decrease) in accounts			
payable, accrued expenses and			
due to grantor	-	-	-
Increase (decrease) in mortgage			
escrows	2,909,465	-	2,909,465
Increase (decrease) in other			
liabilities	(6,087)	301,262	295,175
(Increase) decrease in accrued			
interest receivable-loans	-	-	-
Total adjustments	(4,050,438)	(21,829,497)	(25,879,935)
Net cash provided by (used for) operating			
activities	\$ (1,193,387)	\$ (17,486,587)	\$ (18,679,974)

## OTHER FINANCIAL INFORMATION

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

Federal Grantor/ Program Title	CFDA Number	Total Awards/ Expenditures	Awards/ Expenditures to Subrecipients
<b>Department of Housing and Urban Development</b>			
Section 8 - Project-Based Cluster:			
New Construction and Substantial Rehabilitation	14.182	\$ 6,439,331	\$ 532,749
Housing Assistance Payments Program-Special allocations	14.195	82,805,127	1,257,676
Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856	668,112	-
Total Section 8 - Project-Based Cluster:		<u>89,912,570</u>	<u>1,790,425</u>
*HOME Investment Partnership Program	14.239	26,471,874	13,940,782
Section 8 - Housing Choice Vouchers	14.871	<u>10,861,903</u>	<u>909,684</u>
Total Direct - Department of Housing and Urban Development		<u>\$ 127,246,347</u>	<u>\$ 16,640,891</u>
<b>Department of Homeland Security</b>			
Disaster Grants - Public Assistance (Katrina)	97.036	<u>\$ 658,127</u>	<u>\$ 64,680</u>
Total Department of Homeland Security		<u>\$ 658,127</u>	<u>\$ 64,680</u>
Grand Total - All Agencies		<u><u>\$ 127,904,474</u></u>	<u><u>\$ 16,705,571</u></u>

\* Total Expenditures for the HOME Investment Partnership Program include \$18,054,405 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, 2006

**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

1401 MAIN STREET, SUITE 660  
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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 as of and for the year ended June 30, 2006, and has issued our report thereon September 29, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-1. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness

### 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 grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*. This matter has been reported as 06-2 on the Schedule of Findings and Questioned Costs..

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.

*DeLoach & Williamson, L.L.P.*

September 29, 2006

# DELOACH & WILLIAMSON, L.L.P.

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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**

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

### Compliance

We have audited the compliance of South Carolina State Housing Finance and Development Authority with the types of compliance requirements described in the *US. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2006. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance with those requirements 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 on 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 its major federal program for the year ended June 30, 2006.

### Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

*Releach & Williamson, L.L.P.*

September 29, 2006

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

**Summary of Auditors' Results:**

Financial Statements:

1. An unqualified opinion dated September 29, 2006, on the financial statements of the Authority for the year ended June 30, 2006 was issued.
2. A reportable condition related to internal control over financial reporting was noted as finding 06-1.
3. No instances of non-compliance that were material to the financial statements were found.

Federal Awards:

4. No reportable conditions relating to internal control over compliance resulting from the audit of the major federal award programs are reported.
5. An unqualified opinion on compliance for the major programs dated September 29, 2006 was issued.
6. One audit finding is disclosed that is required to be reported in accordance with section 510(a) of OMB Circular A-133. This was noted as finding 06-2.
7. No instances of non-compliance that were material to the financial statements were noted.
8. The major programs of the Authority are as follows:

<b><u>Program</u></b>	<b><u>CFDA</u></b>
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

9. The dollar threshold used to distinguish between Type A and Type B Programs was \$3,824,865.
10. The Authority was determined to be a low-risk auditee.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(CONTINUED)

**Financial Statement Findings:**

06-1 General Operating Fund – Capitalization of Loans

Condition: Periodic draw-downs on loans should be classified as loans in process and carried as an asset in the financial statements of the Authority.

Cause: The Authority failed to capitalize draw-downs of funds loaned until the loan had closed, this was due to lack of communication between personnel authorizing the draw-downs and personnel recording loans in process.

Effect: Above-mentioned condition resulted in loan amounts being expensed in a prior fiscal year requiring a restatement of Net Assets of \$613,000 for the year ended June 30, 2006.

Recommendation: We recommend that management put into place procedures to ensure draw-downs of loans are classified properly and provide that communication between departments be sufficient to make this possible.

**Federal Awards Findings and Questioned Costs:**

06-2 Program Income – Home Investment Partnership Fund

Condition: During April 2006, it was determined that program income generated through the use of HOME funds had not been reported to the United States Department of Housing and Urban Development (HUD).

Cause: HUD regulations require that program income be re-cycled and expended first, before any current awards are expended. The Authority had collected program income and was holding it in two different funds; however had not reported the amount to HUD and had not expended the program income.

Effect: The Authority was required to identify and expend all program income in accordance with HUD regulations. Additionally, HUD required the Authority to also allocate interest to the funds that were not expended.

Recommendation: We recommend that management put into place procedures to ensure that program income is identified and is expended in accordance with HUD regulations.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(CONTINUED)

**Prior Audit Findings and Questioned Costs:**

The condition described above as item 06-1 was also reported in the prior year. Sufficient improvement has not been made.



## South Carolina State Housing Finance and Development Authority

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Charles I. Small  
Chairman

Andy Laurent  
Executive Director

September 30, 2006

### Corrective Action Plan

The South Carolina State Housing Finance and Development Authority submits the following corrective action plan for the year ended June 30, 2006.

Name and address of independent public accounting firm: DeLoach and Williamson, LLP, 1401 Main Street, Suite 660, Columbia, SC 29201.

The findings from the June 30, 2006 schedule of findings and questioned costs are discussed below. The finding is numbered consistently with the number assigned in the schedule.

#### FINDINGS AND QUESTIONED COSTS FOR FINANCIAL STATEMENTS

#### REPORTABLE CONDITIONS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING

06-1 Recommendation: We recommend that management put into place procedures to ensure drawdown of loans are classified properly and provide that communication between departments be sufficient to make this possible.

Action Taken: A new interdepartmental form was put into use during fiscal year 2005-2006 that specifically requires the originating department to identify every drawdown request as a grant or loan disbursement. All loan disbursements that occurred during the fiscal year ended June 30, 2006 were recorded as a loan receivable at the time of drawdown as a result of the new form and procedures. Therefore, during the fiscal year, finance department staff worked with the originating department to verify that all previous fiscal year draws were properly classified. We feel reasonably certain that we now have all the loans properly classified.

06-2 Recommendation: We recommend that management put into place procedures to ensure that program income is identified and is expended in accordance with HUD regulations.

Action Taken: At the time it was discovered that program income had not been accounted for, reported and disbursed according to HUD regulations, finance department and program department staff worked very hard to resolve the issues. We also worked with HUD staff to be sure that we were properly addressing the issues. We determined the amount of Program Income that was on hand, saw to it that those funds were promptly reported and disbursed and have put procedures in place so that we will remain in compliance with regulations. Also, funds that were previously in a non-interest bearing account have been transferred to an interest bearing account.