

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

COLUMBIA, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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

October 10, 2005

The Honorable Mark Sanford, Governor
and
Members of the Board of Commissioners
South Carolina State Housing Finance and Development Authority
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina State Housing Finance and Development Authority and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2005, was issued by DeLoach & Williamson, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

COLUMBIA, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

TABLE OF CONTENTS

Report of Independent Auditors	1
Management's Discussion and Analysis (Required Supplementary Information).....	3
 Financial Statements	
Authority-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	11
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds	12
Statement of Net Assets-Proprietary Funds.....	13
Statement of Revenue, Expenditures and Changes in Net Assets - Proprietary Funds	15
Statement of Cash Flows-Proprietary Funds	16
Notes to Financial Statements.....	19
 Other Financial Information:	
Schedule of Expenditures of Federal Awards.....	62
Note to Schedule of Expenditures of Federal Awards.....	63
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	64
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	66
Schedule of Findings and Questioned Costs.....	68
Corrective Action Plan.....	70

DELOACH & WILLIAMSON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855
FAX: (803) 771-6001

REPORT OF INDEPENDENT AUDITORS

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
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, 2005, 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, 2005 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, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in *Note 18* that were applied to restate the June 30, 2004 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 9, 2005, 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.

Rebecca E. Williamson, C.C.P.

September 9, 2005

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, 2005.

Financial Highlights

- Net assets of the Authority's proprietary fund increased \$7,050,894 to \$243,892,625.
- The governmental fund net assets increased \$4,165,301 to \$26,793,394. This increase was realized even though the grant awards disbursed increased by \$3,398,169 during the fiscal year. This is due to the fact that the Legislature did not require any transfers to the State General Fund during the current fiscal year and documentary stamp taxes increased due to a robust year in the housing and real estate industry.
- HUD assistance increased \$5,158,709 to \$103,227,590. This increase is due to additional rental properties being assigned to the Authority by HUD for administration under the Contract Administration Program.
- The Authority redeemed \$56,830,000 in bonds prior to their maturity and issued bonds in the amount of \$181,720,000. The Authority issued mortgage revenue bonds twice during the fiscal year, \$100,000,000 in July 2004 and \$81,720,000 in June 2005. During the first half of the fiscal year, loan purchases were at a record high for the Authority. This resulted in the need for the second bond issue where normally only one is done per fiscal year.
- For the fiscal year ending June 30, 2005, the Authority purchased \$114,441,503 of new loans in its enterprise fund and made a total of \$1,358,469 of new loans in the governmental fund. In addition to new loans, \$64,406,402 paid off early. This was a record year for loan purchases and early pay offs were higher than normal as refinancing continued due to more favorable interest rates.
- Bonds Outstanding increased \$117,495,000 to \$630,440,000.

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 \$11,216,195. The following table summarizes the financial position for the Authority as of and for the years ended June 30, 2005 and 2004.

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Total current assets	\$ 18,735,699	\$ 15,528,062	\$ 117,877,593	\$ 91,862,256	\$ 136,613,292	\$ 107,390,318
Capital assets	-	-	852,786	65,206	852,786	65,206
Non-current assets	8,059,620	7,101,587	780,997,171	678,486,624	789,056,791	685,588,211
Total assets	<u>\$ 26,795,319</u>	<u>\$ 22,629,649</u>	<u>\$ 899,727,550</u>	<u>\$ 770,414,086</u>	<u>\$ 926,522,869</u>	<u>\$ 793,043,735</u>
Total current liabilities	\$ 1,925	\$ 1,556	\$ 52,933,489	\$ 30,468,009	\$ 52,935,414	\$ 30,469,565
Total long-term liabilities	-	-	602,901,436	503,104,346	602,901,436	503,104,346
Total liabilities	<u>\$ 1,925</u>	<u>\$ 1,556</u>	<u>\$ 655,834,925</u>	<u>\$ 533,572,355</u>	<u>\$ 655,836,850</u>	<u>\$ 533,573,911</u>
Fund equity in capital assets	\$ -	\$ -	\$ 852,786	\$ 65,206	\$ 852,786	\$ 65,206
Fund equity-restricted	26,793,394	22,628,093	240,165,579	235,508,389	266,958,973	258,136,482
Fund equity-unrestricted	-	-	2,874,260	1,268,136	2,874,260	1,268,136
Total net assets	<u>\$ 26,793,394</u>	<u>\$ 22,628,093</u>	<u>\$ 243,892,625</u>	<u>\$ 236,841,731</u>	<u>\$ 270,686,019</u>	<u>\$ 259,469,824</u>

Net assets of the Authority's governmental funds increased \$4,165,301 to \$26,793,394. 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 \$7,050,894 to \$243,892,625. This increase is primarily attributable to an increase in investment earnings and because a portion of the Federal revenue earned in the General Operating Fund was used to make low interest loans.

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	
	2005	2004	2005	2004	2005	2004
Revenue:						
Charges for services	\$ -	\$ -	\$ 40,721,744	\$ 42,119,403	\$ 40,721,744	\$ 42,119,403
Program Investment						
Income	505,829	323,846	7,883,622	6,268,177	8,389,451	6,592,023
Tax/Grant/Federal						
Revenue	13,465,115	9,996,611	106,445,936	102,316,885	119,911,051	112,313,496
Total revenue	13,970,944	10,320,457	155,051,302	150,704,465	169,022,246	161,024,922
Expenses	9,505,643	6,107,474	147,744,256	139,280,406	157,249,899	145,387,880
Transfer to General						
Fund of the State	-	(5,583,000)	-	-	-	(5,583,000)
Tranfers between						
Funds	(300,000)	-	300,000	-	-	-
Extraordinary Item:						
Loss on early						
extinguishment						
of debt	-	-	556,152	564,339	556,152	564,339
Increase in net assets	<u>\$ 4,165,301</u>	<u>\$ (1,370,017)</u>	<u>\$ 7,050,894</u>	<u>\$ 10,859,720</u>	<u>\$ 11,216,195</u>	<u>\$ 9,489,703</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 (\$40,721,744) and program investment (\$7,883,622). 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 \$7,050,894. Net assets of the Authority increased from the previous year by \$11,216,195.

Debt Administration

The Authority's total liabilities increased \$122,262,939 to \$655,836,850. Long-term debt increased \$99,797,090 to \$602,901,436. The long-term debt consists of bonds payable at \$602,640,297 and accrued compensated absences in the amount of \$261,139.

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, 2005

	Governmental Activities	Business Type Activities	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 15,624,343	\$ 23,225,721	\$ 38,850,064
Restricted assets:			
Cash and cash equivalents	-	51,176,167	51,176,167
Accounts receivable:			
Due from State Agency	2,874,353	-	2,874,353
Due from grantor	-	1,405,461	1,405,461
Other	-	107,599	107,599
Loans receivable	221,437	43,492,497	43,713,934
Accrued interest receivable:			
Loans	15,566	11,858	27,424
Deposits and investments	-	1,259	1,259
Total current assets	<u>18,735,699</u>	<u>119,420,562</u>	<u>138,156,261</u>
Non-current assets:			
Investments	-	543,746	543,746
Loans receivable, net of current portion and unamortized discounts	8,059,620	24,797,247	32,856,867
Restricted assets:			
Cash and cash equivalents	-	255,607,585	255,607,585
Accounts receivable	-	309,739	309,739
Investments	-	3,924,193	3,924,193
Loans receivable, net of unamortized discounts	-	483,545,122	483,545,122
Accrued interest receivable:			
Deposits and investments	-	1,625,899	1,625,899
Loans	-	3,860,934	3,860,934
Unamortized bond issuance costs	-	5,239,737	5,239,737
Capital assets, net of accumulated depreciation	-	852,786	852,786
Total noncurrent assets	<u>8,059,620</u>	<u>780,306,988</u>	<u>788,366,608</u>
Total assets	<u>26,795,319</u>	<u>899,727,550</u>	<u>926,522,869</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

(CONTINUED)

	Governmental Activities	Business Type Activities	Totals
Liabilities			
Current liabilities:			
Liabilities payable from restricted assets:			
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	-	28,587,969	28,587,969
Accrued interest payable on bonds	-	14,903,311	14,903,311
Mortgage escrows	-	7,492,970	7,492,970
Other	-	191,917	191,917
Total liabilities payable from restricted current assets	-	51,176,167	51,176,167
Accrued compensated absences	-	351,782	351,782
Accrued salaries and related payroll expenses	-	460,098	460,098
Mortgage escrows	1,925	-	1,925
Due to grantor	-	734,426	734,426
Other liabilities	-	211,016	211,016
Total current liabilities	1,925	52,933,489	52,935,414
Non-current liabilities:			
Accrued compensated absences, net of current portion	-	261,139	261,139
Bonds payable, net of current portion on unamortized premiums and discounts and deferral losses on refundings	-	602,640,297	602,640,297
Total noncurrent liabilities	-	602,901,436	602,901,436
Total liabilities	1,925	655,834,925	655,836,850
Net Assets			
Invested in capital assets	-	852,786	852,786
Restricted for:			
Debt service	-	39,873,135	39,873,135
Bond reserves	-	11,976,468	11,976,468
Special programs	26,793,394	188,315,976	215,109,370
Unrestricted	-	2,874,260	2,874,260
Total net assets	<u>\$ 26,793,394</u>	<u>\$ 243,892,625</u>	<u>\$ 270,686,019</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

	Program Revenue		Net (Expenses) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs	Expenses				
Governmental activities:					
Housing Trust Fund	\$ 9,505,643	\$ -	\$ (8,999,814)	\$ -	\$ (8,999,814)
Total governmental activities	<u>9,505,643</u>	<u>505,829</u>	<u>(8,999,814)</u>	<u>-</u>	<u>(8,999,814)</u>
Business-type activities:					
Administrative	9,792,434	-	-	(1,638,842)	(1,638,842)
Single-Family Mortgage Loan Programs	32,698,378	7,645,535	-	6,301,205	6,301,205
Multi-Family Mortgage Loan Programs	578,937	165,209	-	342,157	342,157
Multi-Family Federal Assistance Programs	103,227,590	106,445,936	-	3,218,346	3,218,346
Program Fund Programs	<u>1,446,917</u>	<u>170,554</u>	<u>-</u>	<u>(915,820)</u>	<u>(915,820)</u>
Total business-type activities	<u>147,744,256</u>	<u>114,427,234</u>	<u>-</u>	<u>7,307,046</u>	<u>7,307,046</u>
Total functions/programs	<u>\$ 157,249,899</u>	<u>\$ 114,933,063</u>	<u>(8,999,814)</u>	<u>7,307,046</u>	<u>(1,692,768)</u>
General revenue:					
Documentary stamp taxes			13,465,115	-	13,465,115
Transfers between activities			(300,000)	300,000	-
Extraordinary item:					
Loss on early extinguishment of debt			-	(556,152)	(556,152)
Total general revenue, transfers, and extraordinary items			<u>13,165,115</u>	<u>(256,152)</u>	<u>12,908,963</u>
Change in net assets			<u>4,165,301</u>	<u>7,050,894</u>	<u>11,216,195</u>
Net assets, at beginning of year, as restated			<u>22,628,093</u>	<u>236,841,731</u>	<u>259,469,824</u>
Net assets, at end of year			<u>\$ 26,793,394</u>	<u>\$ 243,892,625</u>	<u>\$ 270,686,019</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2005

	Housing Trust Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 15,624,343
Accounts receivable:	
Due from State Agency	2,874,353
Loans receivable	221,437
Accrued interest receivable:	
Loans	15,566
Total current assets	<u>18,735,699</u>
Non-current assets:	
Loans receivable, net of current portion	8,059,620
Total non-current assets	<u>8,059,620</u>
Total assets	<u><u>\$ 26,795,319</u></u>
Liabilities and Fund Balance	
Current liabilities:	
Mortgage escrows	\$ 1,925
Total current liabilities	<u>1,925</u>
Fund Balance:	
Reserved for housing projects and development	26,793,394
Total fund balance	<u>26,793,394</u>
Total liabilities and fund balance	<u><u>\$ 26,795,319</u></u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

	Housing Trust Fund
Revenue	
Documentary stamp taxes	\$ 13,465,115
Interest on loans	176,170
Interest on deposits and investments	329,659
Total revenue	<u>13,970,944</u>
Expenditures:	
Grants for housing trust programs	9,505,643
Total expenditures	<u>9,505,643</u>
Excess of revenue over expenditures	<u>4,465,301</u>
Other Financing Sources (Uses)	
Transfer to General Operating Fund	(300,000)
Total other financing sources (uses)	<u>(300,000)</u>
Net change in fund balance	4,165,301
Fund balance, at beginning of year	<u>22,628,093</u>
Fund balance, at end of year	<u><u>\$ 26,793,394</u></u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2005

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
Assets					
Current assets:					
Cash and cash equivalents	\$ 15,965,692	\$ -	\$ -	\$ 7,260,029	\$ 23,225,721
Restricted assets:					
Cash and cash equivalents	-	48,852,721	2,323,145	301	51,176,167
Accounts receivable:					
Due from grantor	1,405,461	-	-	-	1,405,461
Other	678	-	-	106,921	107,599
Loans receivable	735,709	42,700,672	35,985	20,131	43,492,497
Accrued interest receivable:					
Loans	-	-	-	11,858	11,858
Deposits and investments	-	-	-	1,259	1,259
Total current assets	18,107,540	91,553,393	2,359,130	7,400,499	119,420,562
Non-current assets:					
Investments	-	-	-	543,746	543,746
Loans receivable, net of current portion and unamortized discounts	24,797,247	-	-	-	24,797,247
Restricted assets:					
Cash and cash equivalents	-	250,577,506	5,030,079	-	255,607,585
Accounts receivable	-	-	309,739	-	309,739
Investments	-	3,692,574	231,619	-	3,924,193
Loans receivable, net of unamortized discounts	-	475,353,162	1,295,655	6,896,305	483,545,122
Accrued interest receivable:					
Investments	-	1,588,859	37,040	-	1,625,899
Loans	-	3,834,666	26,268	-	3,860,934
Unamortized bond issuance costs	-	5,221,197	18,540	-	5,239,737
Capital assets, net of accumulated depreciation	852,786	-	-	-	852,786
Total noncurrent assets	25,650,033	740,267,964	6,948,940	7,440,051	780,306,988
Total assets	43,757,573	831,821,357	9,308,070	14,840,550	899,727,550

(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	Totals
Liabilities					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable	-	27,000,000	1,587,969	-	28,587,969
Accrued interest payable on bonds	-	14,889,552	13,759	-	14,903,311
Mortgage escrows	-	6,771,252	721,417	301	7,492,970
Other	-	191,917	-	-	191,917
Total liabilities payable from restricted assets	-	48,852,721	2,323,145	301	51,176,167
Accrued compensated absences	351,782	-	-	-	351,782
Accrued salaries and related payroll expenses	460,098	-	-	-	460,098
Due to grantor	734,426	-	-	-	734,426
Other liabilities	211,016	-	-	-	211,016
Total current liabilities	1,757,322	48,852,721	2,323,145	301	52,933,489
Non-current liabilities:					
Accrued compensated absences, net of current portion	261,139	-	-	-	261,139
Bonds payable, net of current unamortized premiums portion and discounts and deferred losses on refundings	-	602,640,297	-	-	602,640,297
Total noncurrent liabilities	261,139	602,640,297	-	-	602,901,436
Total liabilities	2,018,461	651,493,018	2,323,145	301	655,834,925
Net Assets					
Invested in capital assets	852,786	-	-	-	852,786
Restricted for:					
Debt service	-	38,271,407	1,601,728	-	39,873,135
Bond reserves	-	11,744,849	231,619	-	11,976,468
Special programs	38,012,066	130,312,083	5,151,578	14,840,249	188,315,976
Unrestricted	2,874,260	-	-	-	2,874,260
Total net assets	\$ 41,739,112	\$ 180,328,339	\$ 6,984,925	\$ 14,840,249	\$ 243,892,625

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, 2005

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
Operating Revenue					
Interest and other charges on loans	\$ 423,532	\$ 31,354,048	\$ 735,892	\$ 154,247	\$ 32,667,719
Interest on deposits and investments	-	7,547,859	165,209	170,554	7,883,622
Bond premium amortization	-	97,676	-	-	97,676
Administrative fees and other	7,730,060	-	19,993	206,296	7,956,349
Total operating revenue	8,153,592	38,999,583	921,094	531,097	48,605,366
Operating Expenses					
Bond interest	-	30,733,774	560,600	-	31,294,374
Program services	-	1,215,887	16,738	1,446,917	2,679,542
General and administrative	9,673,497	-	-	-	9,673,497
Bond issuance cost amortization	-	271,571	1,599	-	273,170
Depreciation of capital assets	118,937	-	-	-	118,937
Other expenses	-	477,146	-	-	477,146
Total operating expenses	9,792,434	32,698,378	578,937	1,446,917	44,516,666
Operating Income (Loss)	(1,638,842)	6,301,205	342,157	(915,820)	4,088,700
NonOperating Revenue (Expenses)					
Federal grant and contract revenue	106,445,936	-	-	-	106,445,936
Housing assistance payments and grant awards disbursed	(103,227,590)	-	-	-	(103,227,590)
Total nonoperating revenue (expenses)	3,218,346	-	-	-	3,218,346
Income Before Operating Transfers and Extraordinary Items	1,579,504	6,301,205	342,157	(915,820)	7,307,046
Transfers					
Transfers in	5,182,944	-	-	290,514	5,473,458
Transfers out	-	(4,890,000)	(283,458)	-	(5,173,458)
Total transfers	5,182,944	(4,890,000)	(283,458)	290,514	300,000
Income (Loss) Before Extraordinary Item	6,762,448	1,411,205	58,699	(625,306)	7,607,046
Extraordinary Item					
Loss on early extinguishments of debt	-	(371,482)	(184,670)	-	(556,152)
(Increase) decrease in net assets	6,762,448	1,039,723	(125,971)	(625,306)	7,050,894
Net assets, at beginning of year, as restated	34,976,664	179,288,616	7,110,896	15,465,555	236,841,731
Net assets, at end of year	\$ 41,739,112	\$ 180,328,339	\$ 6,984,925	\$ 14,840,249	\$ 243,892,625

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2005

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
Cash Flows From Operating Activities					
Receipt of loan payments	\$ 657,237	\$ 102,028,665	\$ 15,987,042	\$ 966,577	\$ 119,639,521
Purchase/origination of new loans	(3,395,068)	(110,463,592)	-	(581,843)	(114,440,503)
Other receipts	12,547,308	-	-	-	12,547,308
Payments to employees	(5,190,145)	-	-	-	(5,190,145)
Payments to vendors	(3,933,956)	(2,414,687)	(19,172)	(7,486)	(6,375,301)
Payments to customers	-	-	(1,357,994)	(1,267,492)	(2,625,486)
Net cash flows provided (used) for operating activities	685,376	(10,849,614)	14,609,876	(890,244)	3,555,394
Cash Flows from Capital Financing Activities					
Purchase of equipment	(906,516)	-	-	-	(906,516)
Net cash flows provided (used) for operating activities	(906,516)	-	-	-	(906,516)
Cash Flows from Noncapital Financing Activities					
Transfers from other programs	5,182,944	-	-	290,514	5,473,458
Transfers to other programs	-	(4,890,000)	(283,458)	-	(5,173,458)
Receipts from HUD	106,445,936	-	-	-	106,445,936
Payments of housing assistance	(103,227,590)	-	-	-	(103,227,590)
Proceeds from sale of bonds	-	184,467,841	-	-	184,467,841
Principal payments on bonds payable	-	(54,975,000)	(9,250,000)	-	(64,225,000)
Interest payments on bonds payable	-	(29,352,454)	(585,388)	-	(29,937,842)
Payment on bond issuance costs	-	(1,838,208)	-	-	(1,838,208)
Net cash provided (used) for noncapital activities	8,401,290	93,412,179	(10,118,846)	290,514	91,985,137
Cash Flows from Investing Activities					
Income on deposits and investments	-	6,574,654	145,743	229,275	6,949,672
Cash flows from investing activities	-	6,574,654	145,743	229,275	6,949,672
Net increase (decrease) in cash and cash equivalents	8,180,150	89,137,219	4,636,773	(370,455)	101,583,687
Cash and cash equivalents, beginning of year	7,785,542	210,293,008	2,716,451	7,630,785	228,425,786
Cash and cash equivalents, end of year	\$ 15,965,692	\$ 299,430,227	\$ 7,353,224	\$ 7,260,330	\$ 330,009,473

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(CONTINUED)

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
Reconciliation of Net Operating Income (Loss) to Net Cash Flows Provided by (used for) Operating Activities:					
Net operating income (loss)	\$ (1,638,842)	\$ 6,301,205	\$ 342,157	\$ (915,820)	\$ 4,088,700
Adjustments to reconcile net operating income (loss) to net cash flows provided by (used for) operating activities:					
Depreciation	118,937	-	-	-	118,937
Bond premium amortization	-	(90,950)	-	-	(90,950)
Bond issuance cost amortization	-	271,571	1,599	-	273,170
Bonds interest expense reclassified to noncapital financing activities	-	30,733,774	560,000	-	31,293,774
Income on deposits and investments reclassified to investing activities	-	(7,547,860)	(146,690)	(170,554)	(7,865,104)
Receipt of loan principal payments	657,238	69,306,411	13,969,066	882,258	84,814,973
Purchase/origination of new loans	(3,395,068)	(110,463,591)	-	(581,843)	(114,440,502)
Loss on early extinguishment of bonds payable	-	5,321	-	-	5,321
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	4,393,716	-	-	(99,865)	4,293,851
Increase (decrease) in accounts payable, accrued expenses and due to grantor	549,395	-	-	-	549,395
Increase (decrease) in mortgage escrows	-	563,119	(236,973)	(883)	325,263
Increase (decrease) in other liabilities	-	(282,194)	(1,022)	(604)	(283,820)
(Increase) decrease in accrued interest receivable-loans	-	353,580	121,739	(2,933)	472,386
Total adjustments	2,324,218	(17,150,819)	14,267,719	25,576	(533,306)
Net cash provided by (used for) operating activities	<u>\$ 685,376</u>	<u>\$ (10,849,614)</u>	<u>\$ 14,609,876</u>	<u>\$ (890,244)</u>	<u>\$ 3,555,394</u>

**Supplemental Information
Operating Activities**

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

Single Family Finance Programs Fund	31,354,048
Multi-Family Finance Program Fund	735,892
Program Fund	154,247
Total	<u>\$ 32,244,187</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	\$ (44,061)
Single Family Finance Program Fund	(94,967)
Total	<u>\$ (139,028)</u>

Noncash Noncapital Financing Activities

- a. Interest payments on bonds do not include \$47,464 amortization of bond discounts and \$190,734 of amortization of deferred losses on refundings of debt that were included in operating expense as bond interest.

	<u>Bond Discounts</u>	<u>Deferred Losses on Refundings</u>
Single Family Finance Program Fund	\$ 30,433	\$ 190,734
Multi-Family Finance Program Fund	17,031	
Total	<u>\$ 47,464</u>	<u>\$ 190,734</u>

- b. Unamortized bond discounts of \$74,894 and unamortized bond issuance costs of \$296,588 were written off as an extraordinary loss in the Single Family Finance Programs Fund.
- c. Unamortized bond discounts of \$88,416 and unamortized bond issuance cost of \$96,254 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, 2005

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 accounts 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. All mortgages under these indentures are insured by the Federal Housing Administration. The programs generate income to cover costs of administration and debt service on the bonds. Excess funds may be transferred to other programs at the discretion of the Authority.

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 is "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 the actual life of the loan for Multi-Family loans and are included in interest income. All mortgage loans are insured with various mortgage insurance carriers at specified percentages of the loan amount varying from 25% to 100%.

Management is of the opinion that the mortgage insurance coverage is adequate to cover any potential loan losses under the Single Family Finance Programs and the Multi-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, Program Fund and General Operating Fund are not insured. The Authority considers the mortgaged property as adequate collateral against significant potential losses.

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 \$19,804 arbitrage expense for the year ended June 30, 2005, which was recorded in operating expenses in the Proprietary Funds under other expenses.

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, 2005, the Authority's deposits had a carrying amount of \$15,682,783 and a bank balance of \$15,996,147. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was covered by collateral held under the dedicated method.

<u>Financial Statements</u>		<u>Footnotes</u>	
Current assets:		Deposits:	
Cash and cash equivalents:		Deposits held by State	
Unrestricted	\$ 38,850,064	Treasurer	\$ 30,520,234
Restricted	51,176,167	Other Deposits	15,682,783
		Total deposits	<u>46,203,017</u>
Non-current assets:		Investments:	
Cash and cash equivalents:		Treasurer	543,746
Restricted	255,607,585	Other Investments	<u>303,354,992</u>
Investments:		Total investments	<u>303,898,738</u>
Unrestricted	543,746		
Restricted	<u>3,924,193</u>		
Total	<u>\$ 350,101,755</u>	Total	<u>\$ 350,101,755</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, 2005, the Authority's investment balances were as follows:

	Fair Value	Less Than 1 Year	Greater Than 1 Year
Tri-Party Repurchase Agreements	\$ 81,707,122	\$ 40,853,561	\$ 40,853,561
Guaranteed Investment Contracts	53,935,744	40,256,883	13,678,861
Certificate of Deposit	5,000,000	5,000,000	-
Federal National Mortgage Association and Federal Home Loan Bank Discount Notes	37,580,347	37,580,347	-
U.S. Treasury Bonds	4,091,234	-	4,091,234
State Treasurer's Investment Pool	121,584,291	45,753,641	75,830,650
Totals	\$ 303,898,738	\$ 169,444,432	\$ 134,454,306

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.

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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits and Investments (Continued)

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, 2005, the Authority had \$1,794,181 held by the Trustee as cash, which is going to be used as part of the debt service payment scheduled for July 1, 2005. The Authority has no policy on custodial credit risk.

Concentration of Credit Risk

The Authority places no limit on the amount that the Authority may invest in any one issuer. More than 5 percent of the Authority's investments are in the following investments: *Guaranteed Investment Contracts 18.27%, and Federal National Mortgage Association and Federal Home Loan Bank Discount Notes 12.77%.*

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, 2005 are as follows:

	<u>Reserve Requirements</u>	<u>Actual Funding</u>	<u>Over (Short)</u>
Single Family Mortgage Reserve Funds-1998	\$ 3,209,250	\$ 3,209,250	\$ -
Mortgage Revenue Bond Reserve Funds	5,183,700	8,535,599	3,351,899
Multi-Family 1992A&B Mortgage Reserve Funds	231,619	231,619	-
Totals	<u>\$ 8,624,569</u>	<u>\$ 11,976,468</u>	<u>\$ 3,351,899</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

3. Loans Receivable

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

Governmental Funds

Housing Trust Fund notes maturing on various dates
2012-2032 plus interest ranging from 1%-5.5% per
payable in monthly installments of principal and interest,
as provided in the notes.

\$ 8,281,057

Total governmental funds

\$ 8,281,057

Proprietary Funds

General Operating Fund notes maturing in various dates
from 2002-2032 plus interest ranging from 0%-8% per
annum, payable in installments of principal and interest
as provided in the notes.

\$ 25,532,956

Single Family Finance Programs notes maturing on dates
from 2002-2032 plus interest ranging from 4%-12.25% per
annum, payable in monthly installments of principal and
interest.

518,053,834

Multi-family Finance Programs notes maturing on various
dates from 2022-2025 plus interest at 7.75% per annum;
payable in monthly installments of principal and interest,
as provided in the notes.

1,331,640

Program Fund notes maturing on various dates from 2002
to 2011 plus interest ranging from 1% - 8% per annum;
payable in installments of principal and interest as provided
in the notes.

6,916,436

Total proprietary funds

\$ 551,834,866

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, 2005 was as follows:

	Beginning Balances July 1, 2004	Increases	Decreases	Ending Balances June 30, 2005
Equipment and furniture	\$ 327,406	\$ 906,517	\$ (135,562)	\$ 1,098,361
Accumulated depreciation	(262,200)	(118,937)	135,562	(245,575)
Capital assets, net of accumulated depreciation	<u>\$ 65,206</u>	<u>\$ 787,580</u>	<u>\$ -</u>	<u>\$ 852,786</u>

5. Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2005 were as follows:

	Beginning Balances July 1, 2004	Additions	Reductions	Ending Balances June 30, 2005	Due within One Year
Bonds payable	\$ 512,945,000	\$ 181,720,000	\$ 64,225,000	\$ 630,440,000	\$ 28,587,969
Unamortized premiums and discounts	604,551	2,747,841	(134,982)	3,487,374	-
Deferred amount on refunding	(2,853,803)	(36,039)	(190,734)	(2,699,108)	-
Total bonds payable	510,695,748	184,431,802	63,899,284	631,228,266	28,587,969
Accrued compensated absences	632,905	319,156	(339,140)	612,921	351,782
Totals	<u>\$ 511,328,653</u>	<u>\$ 184,750,958</u>	<u>\$ 63,560,144</u>	<u>\$ 631,841,187</u>	<u>\$ 28,939,751</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds Payable

At June 30, 2005, 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	\$ 106,975,000
Plus, unamortized premium			1,155,021
			<u>108,130,021</u>
Mortgage Revenue Bonds			
1994A (5.375% to 6.75%) due 2002-2026	10/20/94	30,000,000	8,450,000
1995A (5.45% to 6.70%) due 2002-2027	03/01/95	25,000,000	9,355,000
1996A (5.00% to 6.35%) due 2002-2028	05/01/96	25,000,000	9,125,000
1997A (4.65% to 5.90%) due 2002-2029	06/01/97	30,000,000	17,730,000
1999A (3.90% to 5.40%) due 2002-2030	12/23/98	37,700,000	24,860,000
1999B (5.10% to 8.30%) due 2002-2030	11/01/99	139,910,000	74,005,000
2000A (5.40% to 6.40%) due 2003-2032	06/01/00	121,435,000	56,815,000
2001A (3.75% to 5.50%) due 2004-2033	08/01/01	63,455,000	53,305,000
2002A (2.20% to 4.95%) due 2005-2034	10/16/02	39,500,000	36,720,000
2003A (1.60% to 5.45%) due 2005-2034	09/10/03	50,000,000	49,775,000
2004A (1.65% to 5.50%) due 2005-2035	07/01/04	100,000,000	100,000,000
2005A (2.90% to 5.00%) due 2006-2036	06/15/05	81,720,000	81,720,000
			<u>521,860,000</u>
Plus: Unamortized premiums			2,695,402
Less: Unamortized discounts			(346,018)
Unamortized deferred losses on refundings on debt			(2,699,108)
			<u>521,510,276</u>
Multi-family Residential Revenue Bonds			
1992A (3.50% to 6.875%) due 2002-2024	05/21/92	19,625,000	1,605,000
Less, unamortized discounts			(17,031)
			<u>1,587,969</u>
Total bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			<u><u>\$ 631,228,266</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds Payable (Continued)

Amounts including interest required to complete payment of the bond obligation as of June 30, 2005 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2006	\$ 28,605,000	\$ 30,891,821	\$ 59,496,821
2007	9,840,000	31,714,618	41,554,618
2008	10,420,000	31,286,349	41,706,349
2009	10,870,000	30,810,215	41,680,215
2010	11,570,000	30,288,638	41,858,638
2010-2015	67,815,000	142,045,701	209,860,701
2015-2020	95,625,000	120,573,611	216,198,611
2020-2025	124,445,000	90,143,721	214,588,721
2025-2030	135,175,000	54,379,818	189,554,818
2030-2035	120,930,000	18,920,835	139,850,835
2035-2040	15,145,000	544,694	15,689,694
Total	<u>\$ 630,440,000</u>	<u>\$ 581,600,021</u>	<u>\$ 1,212,040,021</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds Payable (Continued)

The Authority has the option to redeem most of its bonds prior to maturity on any interest payment date, or on the first of any month, as specified under each bond issue, plus accrued interest to the date of redemption. Below is a listing of the Single Family and Multifamily Finance Programs bonds the Authority redeemed prior to their maturity during the fiscal year ended June 30, 2005:

Single Family Finance Programs:

Home-ownership Mortgage Revenue

Series 1994 A	\$ 6,530,000
	<u>6,530,000</u>

Mortgage Revenue Bonds

Series 1994 A	2,195,000
Series 1995 A	1,735,000
Series 1996 A	1,805,000
Series 1997 A	1,975,000
Series 1999 A	3,735,000
Series 1999 B	17,525,000
Series 2000 A	6,375,000
Series 2001 A	3,205,000
Series 2002 A	2,655,000
	<u>41,205,000</u>

Multi-family Residential Revenue Bonds

Series 1992 A	9,095,000
	<u>9,095,000</u>

Totals	<u><u>\$ 56,830,000</u></u>
--------	-----------------------------

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds 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, 2005 as follows:

	<u>Discounts</u>	<u>Issuance Costs</u>	<u>Total</u>
Single Family Finance Program bonds	\$ 74,894	\$ 296,588	\$ 371,482
Multi-family Residential Revenue bonds	88,416	96,254	184,670
Totals	<u>\$ 163,310</u>	<u>\$ 392,842</u>	<u>\$ 556,152</u>

Amortization of bond discounts for the year ended June 30, 2005 that were included in bond interest expense in the proprietary fund follow:

Single Family Mortgage Revenue	\$ 26,210
Single Family Home-ownership Mortgage Revenue	4,223
Multi-family Residential Revenue	92,614
	<u>\$ 123,047</u>

Bond premium amortized for the year ended June 30, 2005 and attributable to the Single Family Finance Programs Fund bonds totaled \$97,676 and was reported as a single item revenue amount in the proprietary fund.

Amortization of deferred losses on refundings of debt of \$190,734 for the year ended June 30, 2005 and attributable to the Single Family Finance Programs Fund bonds was included in bond interest expense in the proprietary fund.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. Leases

At June 30, 2005, 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 2005 through 2009.

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>	
2006	\$ 271,975
2007	278,954
2008	282,653
2009	285,466
2010	281,994
	<u>\$ 1,401,042</u>

The Authority also leases motor vehicles from the State Budget and Control Board, which can be cancelled with 30 days notice.

The Authority incurred rental expense of approximately \$401,161 under the aforementioned leases for the fiscal year ended June 30, 2005.

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 \$21,744 was expended under these leases during the fiscal year ended June 30, 2005.

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 2005 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, 2005 follow:

- \$4,890,000.00 from the Single Family Finance Program to the General Operating fund to pay for operating expenses.
- \$7,056 from the General Operating Fund to the Program Fund to pay for administrative fees.
- \$283,458 from the Multi-Family Finance Program to the Program Fund for the purchase of new loans.
- \$300,000 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

-CONTINUED-

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
Fiscal Year 1985 (84/85)			
10/84	Conduit Mortgage Loan Notes (Cypress General Partnership)	\$ 1,075,000	\$ -
06/85	Conduit Mortgage Loan Notes (Breckenridge Apt. Project)	3,000,000	258,731
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	1,083,754
Fiscal Year 1987 (86/87)			
07/88	Multi-Family Housing Revenue Bonds (Paces Landing Series 1988)	8,750,000	8,750,000
12/88	Multi-Family Housing Revenue Refunding Bonds (Oakridge Project) 276	9,150,000	-
Fiscal Year 1989 (88/89)			
12/88	Multi-Family Housing Revenue Refunding Bonds (Waverly Place)	8,400,000	-
Fiscal Year 1991 (90/91)			
09/90	Multi-Family Housing Revenue Bonds 1990 Series A (Westbridge)	2,850,000	2,435,000
Fiscal Year 1992 (91/92)			
10/91	Multi-Family Housing Mortgage Revenue Bonds (Plum Chase)	7,000,000	6,500,000

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

11. Conduit Debt (Continued)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
Fiscal Year 1993 (92/93)			
06/93	Multi-Family Housing Revenue Refunding Bonds (Westbury Place)	5,510,000	4,545,000
06/93	Multi-Family Housing Revenue Refunding Bonds (Windsor Shores)	5,085,000	2,885,000
Fiscal Year 1995 (94/95)			
06/95	Multi-Family Housing Mortgage Revenue Bonds (Union-Dominion-Hunting Ridge Apts. Project)	3,265,000	-
06/95	Rental Housing Revenue Refunding Bonds (Bryton Point Apts. Project)	6,945,000	-
Fiscal Year 1996 (95/96)			
11/95	Multi-Family Housing Revenue Refunding Bonds (Runaway Bay)	10,300,000	8,365,000
11/95	Mortgage Revenue Refunding Bonds (Heritage)	4,525,000	4,100,000
Fiscal Year 1998 (97/98)			
08/97	Multi-Family Housing Revenue Refunding Bonds (Oakfield Apts.)	3,250,000	-
Fiscal Year 1999 (98/99)			
05/99	Multi-Family Rental Housing Revenue Bonds (Ashley Apts.)	4,300,000	4,000,000
Fiscal Year 2000 (99/00)			
07/99	Multi-Family Housing Revenue Bonds (CTS Rock Hill Project)	9,145,000	9,145,000

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

11. Conduit Debt (Continued)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
Fiscal Year 2001 (00/01)			
08/00	Multi-Family Revenue Refunding Bonds (Paces Watch Apts)	10,600,000	-
10/00	Multi-Family Rental Housing Revenue Bonds (City Heights Apts.)	6,750,000	6,515,000
10/00	Multi-Family Rental Housing Revenue Bonds (Spartanburg Terrace Apts.)	4,750,000	4,585,000
10/00	Multi-Family Housing Revenue Bonds (Piedmont Manor Apts.)	6,250,000	6,015,000
10/00	Multi-Family Rental Housing Revenue Bonds (Bayside Apts.)	9,500,000	-
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	16,300,000
06/01	Multi-Family Housing Revenue Bonds (Fairway Apts. Project)	7,735,000	7,735,000
06/01	Multi-Family Housing Revenue Refunding Bonds (East Ridge Project)	8,700,000	-
06/01	Multi-Family Rental Housing Revenue Refunding Bonds (Martin's Creek Project)	7,300,000	7,300,000
Fiscal Year 2002 (01/02)			
08/01	Multi-Family Housing Revenue Refunding Bonds (North Slope Apts./Greenville Oxford Project)	4,955,000	4,955,000
08/01	Multi-Family Housing Revenue Refunding Bonds (Springhouse Apts./Charleston Oxford Project)	10,180,000	10,180,000
08/01	Multi-Family Housing Revenue Refunding Bonds (Hunt Club Apts./Spartanburg Oxford Project)	9,415,000	9,415,000
08/01	Multi-Family Rental Housing Revenue Bonds (Arrington Place Apartments)	2,680,000	2,680,000
12/01	Multi-Family Rental Housing Revenue Bonds (Cedarwood Apartments-Columbia, SC)	8,750,000	8,750,000
12/01	Multi-Family Rental Housing Revenue Bonds (Belton Woods Apts.)	5,795,000	5,660,000

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

11. Conduit Debt (Continued)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
Fiscal Year 2003 (02/03)			
12/02	Multi-Family Rental Housing Revenue Bonds (Poplar Square Apartments)	2,960,000	2,892,984
12/02	Multi-Family Rental Housing Revenue Bonds (Spring Grove Apartments Project)	7,410,000	7,410,000
Fiscal Year 2004 (03/04)			
12/03	Multi-Family Rental Housing Revenue Bonds (Rocky Creek Apartments Project)	10,750,000	6,175,470
04/04	Multi-Family Rental Housing Revenue Bonds (Beverly Apartments Project)	3,010,000	3,010,000
04/04	Multi-Family Rental Housing Revenue Bonds (Hillandale Apartments Project)	6,660,000	6,660,000
06/04	Multi-Family Rental Housing Revenue Bonds (Greenville Arms Apartments Project)	4,265,000	4,269,700
06/04	Multi-Family Rental Housing Revenue Bonds (Canebreak Apartments Project)	4,500,000	4,500,000
Fiscal Year 2005 (04/05)			
07/04	Rental Housing Revenue Bonds (Bayside Apartments Project)	17,250,000	17,250,000
08/04	Multifamily Rental Housing Revenue Bonds (Oakfield Apartments project)	2,844,000	2,844,000
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	5,500,000
Total		<u>\$ 319,099,000</u>	<u>\$ 235,249,639</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

12. Pension Plan

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

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

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years of service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. (This requirement does not apply if the disability is a result of a job related injury.) A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

12. Pension Plan (Continued)

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2004 the employer contribution rate became 10.95 percent, which included a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The Authority's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2005, 2004, and 2003 were approximately \$376,000, \$363,000 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 \$7,400 for the current fiscal year at the rate of .15% of compensation.

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

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employer/employee contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

12. Pension Plan (Continued)

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

13. Post Employment And Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Authority are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service 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

-CONTINUED-

13. Post Employment And Other Employee Benefits (Continued)

The Authority recorded employer contributions expenditures within the applicable operating expense categories for these insurance benefits for active employees of approximately \$376,000 for the year ended June 30, 2005. As discussed in *Note 12*, the Authority paid approximately \$162,000 applicable to the 3.25 percent 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, 2005.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

15. Retirement Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period. The Authority paid \$27,722 under the TERI programs for the year ended June 30, 2005.

In fiscal year 2005, the Authority implemented a Retirement Incentive/Voluntary Separation program. Expenses paid under this program were \$270,045 for the year ended June 30, 2005.

16. Subsequent Events

Effective July 1, 2005, retired SCRS or PORS members, including TERI participants, who work for a covered employer will make the active employee's contributions. The SCRS employee's contribution will increase by 0.25 percent beginning July 1, 2005, and the SCRS employer's contribution will increase by 1 percent over two years beginning July 1, 2006.

17. Commitments

The Authority has financial award commitments outstanding totaling approximately \$7,752,968 as of June 30, 2005 under the Housing Trust fund program.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

18. 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.

In fiscal year 2005, a payment was received from HUD for administrative expenses for the 2003 fiscal year. The Authority has restated the various account balances as follows for the aforementioned reasons.

	<u>Proprietary Fund</u> <u>General Operating</u>
Net assets, July 1, 2004, as previously reported	\$ 33,163,317
Correction of errors:	
Capitalization of loan amounts previously expensed	423,000
Recognition of income earned in a prior year	<u>1,390,347</u>
Net assets, July 1, 2004, as restated	<u><u>\$ 34,976,664</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information

Segment financial information as required by the bond trustees for each indenture of the Authority's Single Family Finance Programs as of and for the year ended June 30, 2005 is presented on the following pages.

Statement of Net Assets - June 30, 2005				
	Single Family	Home Ownership	Mortgage Revenue	Totals
Assets				
Current assets:				
Restricted assets:				
Cash and cash equivalents	\$ 9,616,272	\$ -	\$ 39,236,449	\$ 48,852,721
Loans receivable, net of unamortized discounts	10,887,150	-	31,813,522	42,700,672
Total current assets	<u>20,503,422</u>	<u>-</u>	<u>71,049,971</u>	<u>91,553,393</u>
Non-current assets:				
Restricted assets:				
Cash and cash equivalents	61,585,815		188,991,691	250,577,506
Investments	-		3,692,574	3,692,574
Loans receivable, net of unamortized discounts	146,191,578		329,161,584	475,353,162
Accrued interest receivable:				
Deposits and investments	140,514		1,448,345	1,588,859
Loans	1,088,331		2,746,335	3,834,666
Unamortized bond issuance costs	881,591		4,339,606	5,221,197
Total noncurrent assets	<u>209,887,829</u>	<u>-</u>	<u>530,380,135</u>	<u>740,267,964</u>
Total assets	<u>230,391,251</u>	<u>-</u>	<u>601,430,106</u>	<u>831,821,357</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

Statement of Net Assets - June 30, 2005				
	Single Family	Home Ownership	Mortgage Revenue	Totals
Liabilities				
Current liabilities:				
Interest on loans				
Liabilities payable from restricted assets:				
Bonds payable	-	-	27,000,000	27,000,000
Accrued interest payable on bonds	2,794,875	-	12,094,677	14,889,552
Mortgage escrows	6,771,252	-	-	6,771,252
Other	50,145	-	141,771	191,917
Total current liabilities	9,616,272	-	39,236,448	48,852,721
Non-current liabilities:				
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	108,130,021	-	494,510,276	602,640,297
Total noncurrent liabilities	108,130,021	-	494,510,276	602,640,297
Total Liabilities	117,746,294	-	533,746,724	651,493,018
Net Assets				
Restricted for:				
Debt service	2,794,875	-	35,476,532	38,271,407
Bond reserves	3,209,250	-	8,535,599	11,744,849
Special programs	106,640,832	-	23,671,251	130,312,083
Total net assets	\$ 112,644,957	\$ -	\$ 67,683,382	\$ 180,328,339

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

Statement of Revenue, Expenses, and Changes in Net Assets - Year Ended June 30, 2005				
	Single Family	Home Ownership	Mortgage Revenue	Totals
Operating revenue:				
Interest and other charges on loans	\$ 7,434,772	\$ 501,784	\$ 23,417,492	\$ 31,354,048
Income on deposits and investments	1,193,581	139,699	6,214,579	7,547,859
Other revenue:				
Bond premium amortization	38,511	-	59,165	97,676
Total operating revenue	8,666,864	641,483	29,691,236	38,999,583
Operating expenses				
Bond interest	5,589,750	334,255	24,809,769	30,733,774
Program	186,683	12,758	1,016,446	1,215,887
Bond issuance cost amortization	40,954	900	229,717	271,571
Other expenses	5,184	3,510	468,452	477,146
Total operating expenses	5,822,571	351,423	26,524,384	32,698,378
Operating income (loss)	2,844,293	290,060	3,166,852	6,301,205
Transfers				
Transfers among programs	(624,916)	(13,924,890)	14,549,806	-
Transfers to other programs	(3,740,000)	(1,150,000)	-	(4,890,000)
Total transfers	(4,364,916)	(15,074,890)	14,549,806	(4,890,000)
Income (loss) before extraordinary item	(1,520,623)	(14,784,830)	17,716,658	1,411,205
Extraordinary item:				
Loss on early extinguishment of debt	-	(16,751)	(354,731)	(371,482)
Increase (decrease) in net assets	(1,520,623)	(14,801,581)	17,361,927	1,039,723
Net assets, at beginning of year	114,165,580	14,801,581	50,321,455	179,288,616
Net assets, at end of year	<u>\$ 112,644,957</u>	<u>\$ -</u>	<u>\$ 67,683,382</u>	<u>\$ 180,328,339</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

	Statement of Cash Flows - Year Ended June 30, 2005			
	Single Family	Home Ownership	Mortgage Revenue	Totals
Cash Flows From Operating Activities				
Receipt of loan payments	\$ 28,315,670	\$ 9,971,718	\$ 63,741,277	\$ 102,028,665
Purchase/origination of new loans	(33,304,104)	-	(77,159,488)	(110,463,592)
Payments to vendors	(220,006)	(29,510)	(2,165,171)	(2,414,687)
Net cash flows provided (used) for operating activities	(5,208,440)	9,942,208	(15,583,382)	(10,849,614)
Cash Flows From Noncapital Financing Activities				
Transfers among programs	(624,916)	(5,431,193)	6,056,109	-
Transfers to other programs	(3,740,000)	(1,150,000)		(4,890,000)
Proceeds from sale of bonds			184,467,841	184,467,841
Principal payments on bonds payable		(6,890,000)	(48,085,000)	(54,975,000)
Interest payments on bonds payable	(5,589,750)	(515,859)	(23,246,845)	(29,352,454)
Payment on bond issuance costs			(1,838,208)	(1,838,208)
Early retirement of bonds payable	-	-	-	-
Net cash flows provided (used) for noncapital activities	(9,954,666)	(13,987,052)	117,353,897	93,412,179
Cash Flows From Investing Activities				
Income on deposits and investments	1,099,963	932,120	4,542,571	6,574,654
Net cash flows provided (used) for investing activities	1,099,963	932,120	4,542,571	6,574,654
Net increase (decrease) in cash and cash equivalents	(14,063,144)	(3,112,724)	106,313,087	89,137,219
Cash and cash equivalents, beginning of year	85,265,230	3,112,724	121,915,054	210,293,008
Cash and cash equivalents, end of year	<u>\$ 71,202,086</u>	<u>\$ -</u>	<u>\$ 228,228,141</u>	<u>\$ 299,430,227</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

Statement of Cash Flows - Year Ended June 30, 2005				
	Single Family	Home Ownership	Mortgage Revenue	Totals
Reconciliation of Net Operating Income (Loss) to Net Cash Flows Provided by (Used for) Operating Activities:				
Net operating income (loss)	\$ 2,844,293	\$ 290,111	\$ 3,166,801	\$ 6,301,205
Adjustments to reconcile net operating income (loss) to net cash flows provided by (used for) operating activities:				
Depreciation	-	-	-	-
Bond premium amortization	(38,511)	-	(52,439)	(90,950)
Bond issuance cost amortization	40,954	900	229,717	271,571
Bonds interest expense reclassified to non-capital financing activities	5,589,750	334,255	24,809,769	30,733,774
Income on deposits and investments reclassified to investing activities	(1,193,581)	(139,699)	(6,214,580)	(7,547,860)
Mortgage loan discounts amortization	-	-	-	-
Mortgage loan principal adjustment	-	7,040,193	(7,040,193)	-
Receipt of loan principal payments	20,183,464	2,258,366	46,864,581	69,306,411
Purchase/origination of new loans	(33,304,104)	-	(77,159,487)	(110,463,591)
Loss on early extinguishment of bonds payable	-	5,321	-	5,321
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	-	-	-	-
Increase (decrease) in accounts payable, accrued expenses and due to grantor	-	-	-	-
Increase (decrease) in mortgage escrows	563,119	-	-	563,119
Increase (decrease) in other liabilities	(6,838)	(9,439)	(265,917)	(282,194)
(Increase) decrease in accrued interest receivable-loans	113,014	162,200	78,366	353,580
Total adjustments	(8,052,733)	9,652,097	(18,750,183)	(17,150,819)
Net cash provided by (used for) operating activities	<u>\$ (5,208,440)</u>	<u>\$ 9,942,208</u>	<u>\$ (15,583,382)</u>	<u>\$ (10,849,614)</u>

OTHER FINANCIAL INFORMATION

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

Federal Grantor/ Program Title	CFDA Number	Total Expenditures	Expenditures to Subrecipients
Department of Housing and Urban Development			
Section 8 - Project-Based Cluster:			
New Construction and Substantial Rehabilitation	14.182	\$ 7,169,822	\$ 491,125
Housing Assistance Payments Program-Special allocations	14.195	79,832,390	-
Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856	840,934	-
Total Section 8 - Project-Based Cluster:		87,843,146	491,125
Home Investment Partnership Program	14.239	10,211,652 (1)	411,942
Housing Choice Voucher Program	14.871	11,739,241	221,559
Total Direct - Department of Housing and Urban Development		<u>\$ 109,794,039</u>	<u>\$ 1,124,626</u>

(1) Included in the total expenditures for the Home Investment Partnership Program were loan disbursements of \$2,956,054 made during 2004/2005 that have been capitalized as loans receivable.

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

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
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855
FAX: (803) 771-6001

**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. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
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, 2005, and have issued our report thereon September 9, 2005. 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 05-1. 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

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Commission members, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

September 9, 2005

DELOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

PHONE: (803) 771-8855

FAX: (803) 771-6001

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

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
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, 2005. 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, 2005.

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.

DeLoach & Williamson, L.L.P.

September 9, 2005

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2005

Summary of Auditors' Results:

Financial Statements:

1. An unqualified opinion dated September 9, 2005, on the financial statements of the Authority for the year ended June 30, 2005 was issued.
2. A reportable condition related to internal control over financial reporting was noted as finding 05-1.
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 9, 2005 was issued.
6. No instances of non-compliance that were material to the financial statements were noted.
7. The major programs of the Authority are as follows:

<u>Program</u>	<u>CFDA</u>
HOME Investment Partnership Program	14.239
Housing Choice Voucher Program	14.871
Section 8 Project-Based Cluster:	
New Construction and Substantial Rehabilitation	14.182
Housing Assistance Payments Program-Special Allocations	14.195
Lower Income Housing Assistance Program – Moderate Rehabilitation	14.856
8. The dollar threshold used to distinguish between Type A and Type B Programs was \$3,205,149.	
9. 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:

05-1 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 \$423,000 for the year ended June 30, 2005.

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:

None.

Prior Audit Findings and Questioned Costs:

The condition described above as item 05-1 was also reported in the prior year. Sufficient improvement has not been made.



South Carolina State Housing Finance and Development Authority

300-C Outlet Pointe Blvd., Columbia, South Carolina 29210

Telephone: (803) 896-9001 TDD: (803) 896-8831

Charles I. Small
Chairman

Andy Laurent
Executive Director

October 5, 2005

Corrective Action Plan

The South Carolina State Housing Finance and Development Authority submits the following corrective action plan for the year ended June 30, 2005.

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, 2005 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

05-1 REPORTABLE CONDITION RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING

Recommendation: Management put into place procedures to ensure drawdowns of loans are classified properly and provide that interdepartmental communication is sufficient to make this possible.

Action Taken: A new interdepartmental form has been developed and put into use that specifically requires the originating department to identify every drawdown request as either a grant or loan disbursement. All loan disbursements will be recorded as a loan receivable at the time of drawdown. Finance department staff is working with the originating department to verify that we have properly classified all previous draws.