

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

**COLUMBIA, SOUTH CAROLINA**

---

**AUDITED FINANCIAL STATEMENTS AND OTHER  
FINANCIAL INFORMATION**

---

**YEAR ENDED JUNE 30, 2008**

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

COLUMBIA, SOUTH CAROLINA

---

AUDITED FINANCIAL STATEMENTS AND OTHER  
FINANCIAL INFORMATION

---

YEAR ENDED JUNE 30, 2008

# State of South Carolina



## Office of the State Auditor

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

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

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

October 10, 2008

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, 2008, was issued by DeLoach & Williamson, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

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

RHGjr/cwc

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

COLUMBIA, SOUTH CAROLINA

---

AUDITED FINANCIAL STATEMENTS AND OTHER  
FINANCIAL INFORMATION

---

**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, Expenses 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..... 58  
Note to Schedule of Expenditures of Federal Awards..... 59  
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*..... 60  
Report on Compliance with Requirements Applicable to Each Major Program  
and Internal Control over Compliance in Accordance with OMB Circular A-133..... 62  
Schedule of Findings and Questioned Costs..... 64  
Corrective Action Plan..... 66

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Carolina State Housing Finance and Development Authority (the "Authority") as of and for the year ended June 30, 2008, 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, 2008 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, 2008, 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.

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

Our audit was performed for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Control Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2008, 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 *Government Auditing Standards* and should be read in conjunction with this report in considering the result of our audit.

A handwritten signature in cursive script that reads "P. Leach & Williamson, L.L.P.".

September 30, 2008

# 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, 2008.

### Financial Highlights

- Net assets of the Authority's proprietary fund increased \$15,462,372 to \$299,890,537. This increase is largely the result of the Authority's increased loan portfolio.
- The governmental fund net assets decreased \$7,973,174 to \$35,116,802. This decrease is primarily the result of an increase in grant awards disbursed of \$6,740,470 coupled with a decrease in documentary stamp taxes received of \$3,469,128 during the fiscal year.
- Federal grant revenue increased \$9,925,655 to \$122,525,761. All federal assistance received by the Authority during the current fiscal year was from the Department of Housing and Urban Development (HUD). The increase in HUD assistance is due to an increase in construction draws for projects funded under the HOME program and increases in rental assistance provided residents of the State via the HUD Housing Choice Voucher and Contract Administration programs.
- The Authority redeemed \$41,720,000 in mortgage housing revenue bonds prior to their maturity and issued like bonds in the amount of \$105,007,725.
- The Authority redeemed \$25,165,000 in notes payable and issued like notes in the amount of \$75,165,000.
- For the fiscal year ending June 30, 2008, the Authority purchased \$194,954,879 of single family first mortgages, down payment assistance loans, and multifamily mortgages in its proprietary funds. The demand for single family mortgage loans remained steady but was below the demand we experienced in the fiscal year ending June 30, 2007. During the prior fiscal year, demand for the loans was much higher than the Authority normally experiences.
- Bonds Outstanding increased \$63,118,259 to \$762,141,058.

### Overview of the Financial Statements

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

- The first two statements are Authority-wide financial statements that provide information about the Authority's overall financial position and results. These statements, which are presented on an accrual basis, consist of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Most of the Authority's activities are business-type activities and are reported in proprietary funds.

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

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

## **Fund Financial Statements**

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

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

**Proprietary Fund-**The Authority’s primary activities are in its proprietary funds, in which activities are accounted for in a manner similar to businesses operating in the private sector. Funding is primarily provided through the issuance of bonds, the proceeds of which are used to make various types of loans to finance low and moderate-income housing. HUD contracts are accounted for in the proprietary fund since the Authority receives fees to administer various HUD programs. The net assets of these programs represent accumulated earnings since their inception and are generally restricted for program purposes.

## Financial Analysis of the Authority as a Whole

**Net Assets.** The combined net assets of the Authority increased by \$7,489,198. The following table summarizes the financial position for the Authority as of and for the years ended June 30, 2008 and 2007.

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Total current assets	\$ 24,799,159	\$ 33,603,340	\$ 164,204,298	\$ 141,035,173	\$ 189,003,457	\$ 174,638,513
Capital assets	-	-	684,249	770,715	684,249	770,715
Non-current assets	10,317,787	9,491,628	976,083,848	866,892,304	986,401,635	876,383,932
Total assets	<u>\$ 35,116,946</u>	<u>\$ 43,094,968</u>	<u>\$ 1,140,972,395</u>	<u>\$ 1,008,698,192</u>	<u>\$ 1,176,089,341</u>	<u>\$ 1,051,793,160</u>
Total current liabilities	\$ 144	\$ 4,992	\$ 104,936,459	\$ 47,325,757	\$ 104,936,603	\$ 47,330,749
Total long-term liabilities	-	-	736,145,399	676,944,270	736,145,399	676,944,270
Total liabilities	<u>\$ 144</u>	<u>\$ 4,992</u>	<u>\$ 841,081,858</u>	<u>\$ 724,270,027</u>	<u>\$ 841,082,002</u>	<u>\$ 724,275,019</u>
Fund equity in capital assets	\$ -	\$ -	\$ 684,249	\$ 770,715	\$ 684,249	\$ 770,715
Fund equity-restricted	-	-	252,236,901	264,125,409	252,236,901	264,125,409
Fund equity-unrestricted	35,116,802	43,089,976	46,969,387	19,532,041	82,086,189	62,622,017
Total net assets	<u>\$ 35,116,802</u>	<u>\$ 43,089,976</u>	<u>\$ 299,890,537</u>	<u>\$ 284,428,165</u>	<u>\$ 335,007,339</u>	<u>\$ 327,518,141</u>

Net assets of the Authority's governmental funds decreased \$7,973,174 to \$35,116,802. 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 \$15,462,372 to \$299,890,537. This increase is primarily attributable the increase in the Authority's single family mortgage portfolio.

**Statement of Activities:** The Statement of Activities shows the sources of the Authority's changes in net assets as they progress through the various programs and functions. The Housing Trust Fund is shown as government activities and all other programs are shown as business-type activities. The business-type activities include the Single-Family Loan Programs and other activities including federal housing assistance, allocation of tax credits, compliance monitoring and other activities that are part of the Authority's administrative functions.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Revenue:						
Charges for services	\$ -	\$ -	\$ 55,664,547	\$ 48,870,471	\$ 55,664,547	\$ 48,870,471
Program Investment						
Income	1,298,809	1,523,286	10,707,820	11,999,977	12,006,629	13,523,263
Tax/Grant/Federal						
Revenue	<u>11,525,339</u>	<u>15,194,273</u>	<u>123,091,134</u>	<u>112,600,106</u>	<u>134,616,473</u>	<u>127,794,379</u>
Total revenue	12,824,148	16,717,559	189,463,501	173,470,554	202,287,649	190,188,113
Expenses	20,397,322	13,656,852	174,401,129	158,282,057	194,798,451	171,938,909
Transfers between						
Funds	(400,000)	(391,668)	400,000	391,668	-	-
Transfers from						
State General Fund	-	6,475,569	-	1,617,784	-	8,093,353
Increase in net assets	<u>\$ (7,973,174)</u>	<u>\$ 9,144,608</u>	<u>\$ 15,462,372</u>	<u>\$ 17,197,949</u>	<u>\$ 7,489,198</u>	<u>\$ 26,342,557</u>

Revenues of the Authority's governmental activities were derived from a documentary stamp tax, interest payments on loans and investment income. All expenditures were disbursement of grant awards. Revenues of the Authority's business-type activities were primarily from charges for services (\$55,664,547) and program investment income (\$10,707,820). 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 \$15,462,372 for the business-type activities. Net assets of the Authority increased from the previous year by \$7,489,198.

### **Debt Administration**

The Authority's total liabilities increased \$116,806,983 to \$841,082,002. Long-term debt increased \$59,201,129 to \$736,145,399. The long-term debt consists of bonds payable at \$735,847,216 and accrued compensated absences in the amount of \$298,183.

## **Economic Factors**

The Authority's overall financial condition was strong at June 30, 2008. However, the Authority is not immune from the significant financial crisis that has been evolving during the fiscal year. The financial crisis has become increasingly more significant during the June 30, 2008 through September 30, 2008 time period and is not expected to be resolved in the short-term. Although the Authority has not engaged in sub-prime lending, it has had a major impact on entities that invested heavily in these types of mortgages. The Authority does business with a number of the impacted entities which include providers of bond insurance, mortgage insurance, investment contracts and the firms that underwrite the Authority's mortgage revenue bonds. The downturn in the economy will also have an impact on the amount of loan delinquencies and foreclosures. Our loan losses have typically been negligible due to recoveries from the sale of the property, private mortgage insurers and mortgage guarantees. The Authority's loan servicing and loss mitigation representatives will be closely monitoring the situation and work with the borrower to do all that is possible to prevent foreclosure.

The current economic and financial crisis is the worst the United States has experienced for more than a decade and we will be monitoring those factors that impact our financial stability. We will work diligently to minimize any negative impact to the Authority.

## **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, 2008

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Totals</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 22,710,661	\$ 31,658,080	\$ 54,368,741
Restricted assets:			
Cash and cash equivalents	-	105,525,403	105,525,403
Loans receivable, net of unamortized discounts	-	18,605,829	18,605,829
Accrued interest receivable:			
Loans	-	71,528	71,528
Accounts receivable:			
Due from grantor	-	1,836,710	1,836,710
Due from other State agency	1,727,563	-	1,727,563
Other	-	90,310	90,310
Loans receivable	337,228	214,091	551,319
Accrued interest receivable:			
Loans	23,707	4,914,145	4,937,852
Deposits and investments	-	461,682	461,682
Unamortized bond issuance costs	-	662,626	662,626
Other current assets	-	163,894	163,894
Total current assets	<u>24,799,159</u>	<u>164,204,298</u>	<u>189,003,457</u>
Non-current assets:			
Loans receivable, net of current portion and unamortized discounts	10,317,787	15,433,831	25,751,618
Restricted assets:			
Cash and cash equivalents	-	118,421,585	118,421,585
Investments	-	1,647,959	1,647,959
Loans receivable, net of current portion and unamortized discounts	-	834,929,669	834,929,669
Unamortized bond issuance costs	-	5,650,804	5,650,804
Capital assets, net of accumulated depreciation	-	684,249	684,249
Total noncurrent assets	<u>10,317,787</u>	<u>976,768,097</u>	<u>987,085,884</u>
Total assets	<u>35,116,946</u>	<u>1,140,972,395</u>	<u>1,176,089,341</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

(CONTINUED)

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Totals</b>
<b>Liabilities</b>			
Current liabilities:			
Liabilities payable from restricted assets:			
Notes payable	-	50,000,000	50,000,000
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	-	26,293,842	26,293,842
Accrued interest payable on bonds	-	20,345,821	20,345,821
Mortgage escrows	144	5,184,569	5,184,713
Total liabilities payable from restricted current assets	<u>144</u>	<u>101,824,232</u>	<u>101,824,376</u>
Accrued compensated absences	-	488,674	488,674
Accrued salaries and related payroll expenses	-	483,298	483,298
Due to grantor	-	187,082	187,082
Other liabilities	-	1,953,173	1,953,173
Total current liabilities	<u>144</u>	<u>104,936,459</u>	<u>104,936,603</u>
Non-current liabilities:			
Accrued compensated absences, net of current portion	-	298,183	298,183
Bonds payable, net of current portion on unamortized premiums and discounts and deferral losses on refundings	-	735,847,216	735,847,216
Total noncurrent liabilities	<u>-</u>	<u>736,145,399</u>	<u>736,145,399</u>
Total liabilities	<u>144</u>	<u>841,081,858</u>	<u>841,082,002</u>
Commitments and contingencies ( <i>Note 15</i> )			
<b>Net Assets</b>			
Invested in capital assets	-	684,249	684,249
Restricted for:			
Debt service	-	40,031,292	40,031,292
Bond reserves	-	15,328,577	15,328,577
Special programs	-	196,877,032	196,877,032
Unrestricted	35,116,802	46,969,387	82,086,189
Total net assets	<u>\$ 35,116,802</u>	<u>\$ 299,890,537</u>	<u>\$ 335,007,339</u>

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

	<u>Program Revenue</u>			<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Functions/Programs</b>						
Governmental activities:						
Housing Trust Fund	\$ 20,397,322	\$ -	\$ 1,298,809	\$ (19,098,513)	\$ -	\$ (19,098,513)
Total governmental activities	<u>20,397,322</u>	<u>-</u>	<u>1,298,809</u>	<u>(19,098,513)</u>	<u>-</u>	<u>(19,098,513)</u>
Business-type activities:						
Administrative	10,091,561	12,501,423	-	-	2,409,862	2,409,862
Single-Family Mortgage Loan Programs	44,155,173	42,899,126	10,707,820	-	9,451,773	9,451,773
Multi-Family Mortgage Loan Programs	-	-	-	-	-	-
Multi-Family Federal Assistance Programs	115,778,547	-	122,525,761	-	6,747,214	6,747,214
Program Fund Programs	4,375,848	263,998	565,373	-	(3,546,477)	(3,546,477)
Total business-type activities	<u>174,401,129</u>	<u>55,664,547</u>	<u>133,798,954</u>	<u>-</u>	<u>15,062,372</u>	<u>15,062,372</u>
Total functions/programs	<u>\$ 194,798,451</u>	<u>\$ 55,664,547</u>	<u>\$ 135,097,763</u>	<u>(19,098,513)</u>	<u>15,062,372</u>	<u>(4,036,141)</u>
General revenue:						
Documentary stamp taxes				11,525,339	-	11,525,339
Transfers between activities				(400,000)	400,000	-
Total general revenue and transfers				<u>11,125,339</u>	<u>400,000</u>	<u>11,525,339</u>
Change in net assets				(7,973,174)	15,462,372	7,489,198
Net assets, at beginning of year				43,089,976	284,428,165	327,518,141
Net assets, at end of year				<u>\$ 35,116,802</u>	<u>\$ 299,890,537</u>	<u>\$ 335,007,339</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	<b>Housing Trust Fund</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 22,710,661
Accounts receivable:	
Due from other State agency	1,727,563
Loans receivable	337,228
Accrued interest receivable:	
Loans	23,707
Total current assets	24,799,159
Non-current assets:	
Loans receivable, net of current portion	10,317,787
Total non-current assets	10,317,787
Total assets	\$ 35,116,946
<b>Liabilities and Fund Balance</b>	
Current liabilities:	
Mortgage escrows	\$ 144
Total current liabilities	144
Commitments and contingencies ( <i>Note 15</i> )	
Fund balance:	
Unreserved:	
Designated for housing projects and development	35,116,802
Total fund balance	35,116,802
Total liabilities and fund balance	\$ 35,116,946

*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, 2008

	<u>Housing Trust Fund</u>
<b>Revenue</b>	
Documentary stamp taxes	\$ 11,525,339
Interest on loans	218,916
Interest on deposits and investments	1,079,893
Total revenue	<u>12,824,148</u>
<b>Expenditures:</b>	
Grants for housing trust programs	20,397,322
Total expenditures	<u>20,397,322</u>
Deficit of revenue under expenditures	<u>(7,573,174)</u>
<b>Other Financing Sources (Uses)</b>	
Transfer to other funds	(400,000)
Total other financing sources (uses)	<u>(400,000)</u>
Net change in fund balance	(7,973,174)
Fund balance, at beginning of year	<u>43,089,976</u>
Fund balance, at end of year	<u><u>\$ 35,116,802</u></u>

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2008

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Eliminations	Totals
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 15,637,423	\$ -	\$ -	\$ 16,020,657	\$ -	\$ 31,658,080
Restricted assets:						
Cash and cash equivalents	8,808,202	96,639,663	-	77,538	-	105,525,403
Loans receivable, net of unamortized discounts	1,574,838	17,030,991	-	-	-	18,605,829
Accrued interest receivable:						
Loans	71,528	-	-	-	-	71,528
Accounts receivable:						
Due from grantor	1,836,710	-	-	-	-	1,836,710
Other	90,310	-	-	-	-	90,310
Due from other funds	-	1,091,937	-	-	(1,091,937)	-
Loans receivable	118,472	-	-	95,619	-	214,091
Accrued interest receivable:						
Loans	32,806	4,855,504	-	25,835	-	4,914,145
Deposits and investments	-	460,536	-	1,146	-	461,682
Unamortized bond issuance costs	-	662,626	-	-	-	662,626
Other current assets	32,152	131,742	-	-	-	163,894
Total current assets	<u>28,202,441</u>	<u>120,872,999</u>	<u>-</u>	<u>16,220,795</u>	<u>(1,091,937)</u>	<u>164,204,298</u>
Non-current assets:						
Loans receivable, net of current portion and unamortized discounts	7,347,887	-	-	8,085,944	-	15,433,831
Restricted assets:						
Cash and cash equivalents	-	118,421,585	-	-	-	118,421,585
Investments	-	1,647,959	-	-	-	1,647,959
Loans receivable, net of current portion and unamortized discounts	58,106,025	776,823,644	-	-	-	834,929,669
Unamortized bond issuance costs	-	5,650,804	-	-	-	5,650,804
Capital assets, net of accumulated depreciation	684,249	-	-	-	-	684,249
Total noncurrent assets	<u>66,138,161</u>	<u>902,543,992</u>	<u>-</u>	<u>8,085,944</u>	<u>-</u>	<u>976,768,097</u>
Total assets	<u>94,340,602</u>	<u>1,023,416,991</u>	<u>-</u>	<u>24,306,739</u>	<u>(1,091,937)</u>	<u>1,140,972,395</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

(CONTINUED)

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Eliminations	Totals
<b>Liabilities</b>						
Current liabilities:						
Liabilities payable from restricted assets:						
Notes payable	-	50,000,000	-	-	-	50,000,000
Bonds payable	-	26,293,842	-	-	-	26,293,842
Accrued interest payable on bonds	-	20,345,821	-	-	-	20,345,821
Mortgage escrows	5,107,031	-	-	77,538	-	5,184,569
Total liabilities payable from restricted assets	5,107,031	96,639,663	-	77,538	-	101,824,232
Accrued compensated absences	488,674	-	-	-	-	488,674
Accrued salaries and related payroll expenses	483,298	-	-	-	-	483,298
Due to grantor	187,082	-	-	-	-	187,082
Due to other funds	1,091,937	-	-	-	(1,091,937)	-
Other liabilities	1,707,499	233,605	-	12,069	-	1,953,173
Total current liabilities	9,065,521	96,873,268	-	89,607	(1,091,937)	104,936,459
Non-current liabilities:						
Accrued compensated absences, net of current portion	298,183	-	-	-	-	298,183
Bonds payable, net of current unamortized premiums portion and discounts and deferred losses on refundings	-	735,847,216	-	-	-	735,847,216
Total noncurrent liabilities	298,183	735,847,216	-	-	-	736,145,399
Total liabilities	9,363,704	832,720,484	-	89,607	(1,091,937)	841,081,858
Commitments and contingencies (Note 15)						
<b>Net Assets</b>						
Invested in capital assets	684,249	-	-	-	-	684,249
Restricted for:						
Debt service	-	40,031,292	-	-	-	40,031,292
Bond reserves	-	15,328,577	-	-	-	15,328,577
Special programs	61,540,394	135,336,638	-	-	-	196,877,032
Unrestricted	22,752,255	-	-	24,217,132	-	46,969,387
Total net assets	\$ 84,976,898	\$ 190,696,507	\$ -	\$ 24,217,132	\$ -	\$ 299,890,537

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, 2008

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
<b>Operating Revenue</b>					
Interest and other charges on loans	\$ 1,551,322	\$ 42,899,126	\$ -	\$ 133,422	\$ 44,583,870
Interest on deposits and investments	59,650	10,338,422	-	565,373	10,963,445
Administrative fees and other	10,890,451	369,398	-	130,576	11,390,425
Total operating revenue	<u>12,501,423</u>	<u>53,606,946</u>	<u>-</u>	<u>829,371</u>	<u>66,937,740</u>
<b>Operating Expenses</b>					
Bond interest	-	40,272,687	-	-	40,272,687
Program services	-	2,525,591	-	1,324,758	3,850,349
General and administrative	10,049,542	-	-	-	10,049,542
Bond issuance cost amortization	-	685,477	-	-	685,477
Depreciation of capital assets	42,019	-	-	-	42,019
Other expenses	-	671,418	-	-	671,418
Total operating expenses	<u>10,091,561</u>	<u>44,155,173</u>	<u>-</u>	<u>1,324,758</u>	<u>55,571,492</u>
<b>Operating Income (Loss)</b>	<u>2,409,862</u>	<u>9,451,773</u>	<u>-</u>	<u>(495,387)</u>	<u>11,366,248</u>
<b>Non-Operating Revenue (Expenses)</b>					
Federal grant and contract revenue	122,525,761	-	-	-	122,525,761
Housing assistance payments and grant awards disbursed	(115,778,547)	-	-	(3,051,090)	(118,829,637)
Total nonoperating revenue (expenses)	<u>6,747,214</u>	<u>-</u>	<u>-</u>	<u>(3,051,090)</u>	<u>3,696,124</u>
<b>Income Before Operating Transfers and Extraordinary Items</b>	<u>9,157,076</u>	<u>9,451,773</u>	<u>-</u>	<u>(3,546,477)</u>	<u>15,062,372</u>
<b>Transfers</b>					
Transfers in	6,394,000	1,249,588	-	5,171,406	12,814,994
Transfers out	(5,679,992)	(5,994,000)	(1,002)	(740,000)	(12,414,994)
Total transfers	<u>714,008</u>	<u>(4,744,412)</u>	<u>(1,002)</u>	<u>4,431,406</u>	<u>400,000</u>
(Increase) decrease in net assets	9,871,084	4,707,361	(1,002)	884,929	15,462,372
Net assets, at beginning of year	75,105,814	185,989,146	1,002	23,332,203	284,428,165
Net assets, at end of year	<u>\$ 84,976,898</u>	<u>\$ 190,696,507</u>	<u>\$ -</u>	<u>\$ 24,217,132</u>	<u>\$ 299,890,537</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2008

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
<b>Cash Flows From Operating Activities</b>					
Receipt of loan principal payments	\$ 14,281,000	\$ 70,133,258	\$ -	\$ 5,339,147	\$ 89,753,405
Receipt of loan interest payments	1,540,663	42,252,553	-	115,661	43,908,877
Purchase/origination of new loans	(21,696,531)	(168,019,911)	-	(5,238,437)	(194,954,879)
Other receipts	9,599,350	15,129	-	130,576	9,745,055
Payments to employees	(7,124,096)	-	-	-	(7,124,096)
Payments to vendors	(1,228,307)	(3,125,857)	(149,470)	(1,236,677)	(5,740,311)
Payments to customers	-	-	-	-	-
Net cash flows provided (used) for operating activities	(4,627,921)	(58,744,828)	(149,470)	(889,730)	(64,411,949)
<b>Cash Flows from Capital Financing Activities</b>					
Purchase of equipment	(53,456)	-	-	-	(53,456)
Net cash flows provided (used) for operating activities	(53,456)	-	-	-	(53,456)
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfers from other programs	6,394,000	1,249,588	-	5,171,406	12,814,994
Transfers to other programs	(5,679,992)	(5,994,000)	(1,002)	(740,000)	(12,414,994)
Loans from other programs	139,771	(139,771)	-	-	-
Receipts from HUD	122,525,761	-	-	-	122,525,761
Payments of housing assistance and grants	(115,778,548)	-	-	(3,051,090)	(118,829,638)
Proceeds from sale of bonds	-	105,007,725	-	-	105,007,725
Proceeds from sale of notes	-	75,165,000	-	-	75,165,000
Principal payments on bonds payable	-	(41,720,000)	-	-	(41,720,000)
Principal payments on notes	-	(25,165,000)	-	-	(25,165,000)
Interest payments on bonds payable	-	(38,181,787)	-	-	(38,181,787)
Payment on bond issuance costs	-	(1,231,793)	-	-	(1,231,793)
Net cash provided (used) for noncapital activities	7,600,992	68,989,962	(1,002)	1,380,316	77,970,268
<b>Cash Flows from Investing Activities</b>					
Sale (Purchase) of Investments	-	749,285	-	-	749,285
Income on deposits and investments	59,650	10,982,814	1,002	566,430	11,609,896
Cash flows from investing activities	59,650	11,732,099	1,002	566,430	12,359,181
Net increase (decrease) in cash and cash equivalents	2,979,265	21,977,233	(149,470)	1,057,016	25,864,044
Cash and cash equivalents, beginning of year	21,466,360	193,084,015	149,470	15,041,179	229,741,024
Cash and cash equivalents, end of year	<u>\$ 24,445,625</u>	<u>\$ 215,061,248</u>	<u>\$ -</u>	<u>\$ 16,098,195</u>	<u>\$ 255,605,068</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(CONTINUED)

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Totals
<b>Reconciliation of Operating Income to Net Cash Flows Provided by (used in) Operating Activities:</b>					
Operating income (loss)	\$ 2,409,862	\$ 9,451,773	\$ -	\$ (495,387)	\$ 11,366,248
Adjustments to reconcile operating income (loss) to net cash flows provided by (used in) operating activities:					
Depreciation	42,019	-	-	-	42,019
Loss on disposal of capital assets	97,903	-	-	-	97,903
Bond premium amortization	-	(354,270)	-	-	(354,270)
Bond discount amortization	-	9,935	-	-	9,935
Bond early ext amortization	-	174,869	-	-	174,869
Bond issuance cost amortization	-	685,477	-	-	685,477
Bonds interest expense reclassified to noncapital financing activities	-	40,272,687	-	-	40,272,687
Income on deposits and investments reclassified to investing activities	(59,650)	(10,338,422)	-	(565,373)	(10,963,445)
Receipt of loan principal payments	14,281,000	70,133,258	-	5,339,147	89,753,405
Purchase/origination of new loans	(21,696,531)	(168,019,911)	-	(5,238,437)	(194,954,879)
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(1,323,251)	(131,742)	-	-	(1,454,993)
Increase (decrease) in accounts payable, accrued expenses and due to grantor	544,021	18,091	-	12,069	574,181
Increase (decrease) in mortgage escrows	130,380	-	(149,470)	76,012	56,922
Increase (decrease) in other liabilities	956,986	-	-	-	956,986
(Increase) decrease in accrued interest receivable-loans	(10,660)	(646,573)	-	(17,761)	(674,994)
Total adjustments	(7,037,783)	(68,196,601)	(149,470)	(394,343)	(75,778,197)
Net cash provided by (used in) operating activities	<u>\$ (4,627,921)</u>	<u>\$ (58,744,828)</u>	<u>\$ (149,470)</u>	<u>\$ (889,730)</u>	<u>\$ (64,411,949)</u>

**Supplemental Information  
Operating Activities**

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

General Operating Fund	\$ 1,540,663
Single Family Finance Programs Fund	42,252,553
Program Fund	115,661
Total	<u>\$ 43,908,877</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, 2008 that is included in these financial statements in "investment income" follows:

Single Family Finance Program Fund	\$ 35,784
Total	<u>\$ 35,784</u>

**Noncash Noncapital Financing Activities**

- a. Interest payments on bonds do not include \$9,935 amortization of bond discounts and \$174,869 of amortization of deferred losses on refundings of debt that were included in operating expense as bond interest in the Single Family Finance Program Fund.

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

**1. Summary of Significant Accounting Policies**

The financial statements of South Carolina State Housing Finance and Development Authority (the Authority) were prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority are described hereafter.

**Reporting Entity**

The Authority, a primary entity, is part of the primary government of the State of South Carolina. As such, its funds are included in the Comprehensive Annual Financial Report of the State of South Carolina.

The Authority is a public body, corporate and politic, and a reporting entity of the primary government of the State of South Carolina. The Authority was established in 1971 pursuant to Section 31-13-20 of the South Carolina Code of Laws. The laws of the State and policies and procedures specified by the State for State agencies are applicable to the Authority. The powers of the Authority were expanded through the passage of the South Carolina State Housing Act of 1977 (31-13-10 through 330 and 31-3-1510), and as amended in 1982 (31-13-70), 1983 (31-13-80), 1986 (31-1-340), 1988 (31-13-50) and 1990 (31-13-200).

The Act empowers the Authority to enter into grants and contracts with the federal government and to issue bonds and notes. In 1992, the General Assembly amended Chapter 13, Title 13 by adding Article 4 which enacts the Housing Trust Fund Act of 1992.

The Authority's Board of Commissioners (the Board), whose members are appointed by the Governor, is the governing body of the Authority. The Board administers, has jurisdiction over, and is responsible for the management of the Authority.

-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.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

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

**Fund Accounting**

Fund Accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives, in accordance with limitations and restrictions imposed by sources outside the entity and in accordance with directives issued by the governing board.

The Authority's funds are classified into two categories - governmental and proprietary.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Governmental Funds**

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

The Special Revenue Fund accounts for the Housing Trust Fund, which was established in May 1992. The Authority receives funding from a percentage of the documentary stamp tax on instruments conveying real property. The Fund is to be used to finance, in whole or in part, affordable housing projects and developments by loans and/or grants or providing matching funds to secure federal or other funding.

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

**Proprietary Funds**

The proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from activities of the Authority are provided to outside parties and such activities are accounted for in an enterprise fund type of the State of South Carolina. An enterprise fund accounts for activities that are self-sustaining, primarily through user charges or are used when management wants to control or measure costs of services. The Authority's proprietary fund category includes the following enterprise funds:

**The General Operating Fund** records administrative fees from the U.S. Department of Housing and Urban Development (HUD), loan servicing fees, other fee type income, and interest earned on loans. These sources of funds as well as operating transfers from other programs are used to defray the general and administrative expenses of the Authority. The General Operating Fund also accounts for HUD funds that are used to provide rental assistance to qualified recipients as well as fund loans and grants for various other rental, homeownership, rehabilitation and development activities.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**The Single Family Finance Programs Fund** accounts for the financing activities of the Authority's 1979 Single Family Mortgage Purchase Bond Indenture and 1994 Mortgage Revenue Bonds Indenture. The proceeds of each series of bonds issued under the two programs are used to purchase mortgage loans made to the State's moderate-to-low income citizens who meet federal and Authority eligibility requirements. The programs generate income to cover the costs of administration and debt service on the bonds. Excess funds as determined by cash flow analysis and certification may be transferred to the other programs at the discretion of the Authority.

**The Multifamily Finance Programs Fund** accounted for the financing activities of the Authority's Multi-Family residential revenue bond indentures. Mortgages were purchased covering projects that house low income citizens meeting federal eligibility requirements. Both the bonds issued and mortgages purchased were satisfied in full during the fiscal year ended June 30, 2006. Under the indentures, excess funds may be transferred to other programs at the discretion of the Authority. All remaining funds were transferred to the General Operating Fund and Program Fund during the current fiscal year. Accordingly, this fund will not be reported separately in future years.

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Basis of Accounting and Reporting**

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

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

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

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

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

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Restricted Assets and Liabilities Payable from Restricted Assets under Revenue Bond Resolutions**

Generally, under the applicable bond indentures, the earnings and receipts of loan payments related to investment and mortgage loan assets in the Single Family Finance Program Fund are required to be used for the related debt service payments. Because these assets are generally restricted for this purpose, they have been reflected in the restricted portion of the accompanying statements. Net restricted assets for bond reserves are computed July 1 of each year by a percentage of the then outstanding bond principal in accordance with the bond indenture. Net restricted assets not restricted for the respective bond reserves of the Single Family Finance Program are reflected as either restricted for debt service or for special programs in the accompanying statements. Funds not required for bond reserves and near term debt service payments are available to pay operating expenses and to fund new mortgage loans.

**Nonexchange Transactions**

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

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

1. The recipient has the characteristics specified by the provider.
2. The recipient has met the time requirements specified by the provider (i.e. the period when the resources are required to be used or the period when use is first permitted has begun or the resources are being maintained intact, as specified by the enabling legislation or provider).
3. The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.
4. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Discounts, Premiums, Deferred Losses on Refundings of Debt, Issuance Costs, and Bond Amortization**

Bond discounts and premiums are amortized over the terms of the bonds. Costs incurred in connection with the bond issues are deferred and amortized on the straight-line method over the lives of the related issues. The deferred losses on refundings of debt include the call premiums and the unamortized premiums or discounts and issuance costs attributable to the bonds refunded and are amortized over the lives of the refunded issues or the new issues whichever is shorter, using the bonds outstanding method. Amortization of bond discounts and the deferred losses on refunding of debt is included in operating expenses as an addition to interest expense. Amortization of bond premium is included in operating revenue as a separate line item amount. Amortization of bond issuance costs is included in operating expenses as a separate line item amount.

**Federally Assisted Program Advances and Fees**

In accordance with the terms of contracts between the Authority and the U.S. Department of Housing and Urban Development (HUD), the Authority administers Section 8 Housing Assistance Payments Programs, New Construction/Substantial Rehabilitation, Contract Administration, Restructuring, Moderate Rehabilitation, and Rental Voucher Program in certain areas of South Carolina. Under these programs, housing assistance payments are made to eligible individuals or to owners of rental housing on behalf of persons of limited income who meet the eligibility requirements.

Generally, HUD advances the Authority sufficient funds to cover the current month's housing assistance payments before such disbursements are made by the Authority. Additionally, HUD advances funds on a monthly basis for the Authority's costs of administering the subsidy contracts. These administrative fees are recognized as operating revenue when earned in the General Operating Fund. Because such funds are generally restricted as to purpose, they have been reflected in the restricted portion of the accompanying statements where appropriate.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Federally Assisted Program Advances and Fees (Continued)**

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

**Cash and Cash Equivalents**

Amounts denoted in the financial statements as "cash and cash equivalents" represent cash on deposit in banks, cash on deposit with the State Treasurer, cash invested in various instruments with banks, cash invested in various instruments by the State Treasurer (as part of the State's internal cash management pool) and short term investments not held by the State Treasurer's Office and having a maturity at purchase of three months or less.

For purposes of the statement of cash flows, the Authority considers all highly liquid debt instruments purchased with a maturity of three months or less at the time of acquisition to be cash equivalents.

Most State agencies, including the Authority, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements and certain corporate bonds.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Authority records and reports its deposits in the general deposit account at cost but reports its deposits in the special deposit accounts at fair value. Investments held in the pool are recorded at fair value. Interest earned by the Authority on amounts held in special deposit accounts is posted to the Authority's accounts at the end of each month and is retained by the Authority. Interest earnings are allocated based on the percentage of the Authority's accumulated daily interest income receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in fair value on investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the Authority's percentage ownership in the pool.

Although the cash management pool may include some long-term investments, it operates as a demand deposit account. Credit risk information pertaining to the cash management pool is contained in *Note 2*.

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, if any, are deferred and amortized using the sum-of-the-years digit method over the estimated life of ten years for single-family loans and are included in interest income. Most mortgage loans in the Single Family Finance Program Fund, as well as, the single-family mortgage loans of approximately \$18.2 million in the General Operating Fund are insured with various mortgage insurance carriers at specified percentages of the original loan amount varying from 25% to 100%. However, once the loan to property value ratio falls below 80%, borrowers have to right to cancel the mortgage insurance if certain conditions, as provided by federal law and/or the insurance carrier, have been met. As required by the Homeowners Protection Act, mortgage insurance is automatically cancelled when the original loan to value ratio reaches 79%. Under such conditions, the Authority considers the mortgaged property as adequate collateral against significant potential loan losses for such uninsured properties.

Management is of the opinion that the mortgage insurance coverage is adequate to cover any significant potential loan losses under the Single Family Finance Programs should they occur. Loans determined to be uncollectible and unrecoverable from mortgage insurance carriers are charged off against program income. Most loans made from the Housing Trust Fund and a significant portion of the loans in the General Operating Fund are not single-family mortgage loans and are not insured. The Authority considers the mortgaged property as adequate collateral against significant potential losses for such uninsured properties.

**Capital Assets**

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

Depreciation is computed using the straight-line method over estimated useful lives of ten years for furniture and equipment and five years for software. Currently, the Authority owns personal property only and does not own any real property (land, buildings, attachments, etc.).

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Mortgage Escrows**

Under provisions of certain mortgage loan agreements, the Authority is responsible for collecting deposits from homeowners for payment of property taxes and insurance.

**Compensated Absences**

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

**Rebatable Arbitrage**

Arbitrage involves the investment of proceeds from the sale of tax-exempt debt in a taxable investment that yields a higher rate than the rate of the obligation. This results in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year and if they meet specified targets for expenses of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds, notes and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. A reserve fund is established to liquidate the liability when determined. The Authority incurred and paid \$182,385 in arbitrage expense for the year ended June 30, 2008.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Budget Policy**

The appropriation as enacted by the General Assembly becomes the legal operating budget for the Authority. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of Total Funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough appropriation authorization exists and generally if sufficient cash is on hand.

**Operating and Non-Operating Revenues and Expenses**

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with proprietary fund's principal ongoing operations. The Authority's primary operating revenues are from interest and other charges on loans. Operating expenses include the Authority's administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Net Assets**

Net assets are classified and presented in three components:

Invested in capital assets – Consists of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted assets – Restricted assets are defined as resources which are restricted by legal and/or contractual requirements. Generally, such assets have use restrictions placed on them by (1) external parties such as creditors, grantors, contributions or laws or regulations of other governments; or (2) laws of the enabling government. The Authority's restrictions are primarily due to requirements of bond indentures, South Carolina law and Federal program requirements.

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

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

**Use of Estimates**

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**2. Deposits and Investments**

**Deposits**

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

At June 30, 2008, the Authority's deposits had a carrying amount of \$22,512,012 and a bank balance of \$22,914,975. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was covered by collateral held under the dedicated method.

Financial Statements	Footnotes
Current assets: Cash and cash equivalents: Unrestricted                     \$    54,368,741 Restricted                         105,525,403	Deposits: Deposits held by State Treasurer                         \$    14,055,211 Other Deposits                     22,512,012 Total deposits <u>36,567,223</u>
Non-current assets: Cash and cash equivalents: Restricted                         118,421,585 Investments: Restricted <u>1,647,959</u>	Investments: Treasurer                             69,489,594 Other Investments <u>173,906,871</u> Total investments <u>243,396,465</u>
Total <u><u>\$   279,963,688</u></u>	Total <u><u>\$   279,963,688</u></u>

**Deposits Held by State Treasurer**

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Investments**

At June 30, 2008, the Authority's investment balances were as follows:

	<b>Fair Value</b>	<b>Less Than 1 Year</b>	<b>Greater Than 1 Year</b>
Tri-Party Repurchase Agreements	\$ 64,421,084	\$ 64,421,084	\$ -
Guaranteed Investment Contracts	98,850,528	98,850,528	-
Certificate of Deposit	5,683,502	5,683,502	-
Federal National Mortgage Association and Federal Home Loan Bank Discount Notes	3,303,798	3,303,798	-
U.S. Treasury Bonds	1,647,959	-	1,647,959
<b>Totals</b>	<b>\$ 173,906,871</b>	<b>\$ 172,258,912</b>	<b>\$ 1,647,959</b>

**Investment Risk Factors**

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

**Interest Rate Risk**

Interest rate risk is the risk that the value of fixed income securities will decline because of changes in interest rates. As a means of limiting its exposure to interest rate risk, the revenue funds for most bond issue are tied to a guaranteed investment contract (GIC). The interest rate of each GIC is guaranteed for the life of the bonds in order to limit interest rate risk exposure for each issue. As an additional measure to limit interest rate risk, the Authority does not invest in certificates of deposit with a maturity exceeding one year.

**Custodial Credit Risk**

For an investment, the custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities held by an outside party. As of June 30, 2008, the Authority had \$12,702,374 held by the Trustee as cash, which will be used as part of the debt service payment scheduled for July 1, 2008. The Authority has no policy on custodial credit risk.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Credit Risk**

The Authority follows Section 11-9-660 of the South Carolina Code of Laws regarding credit risk. The Authority places a portion of its funds on deposit in the State Treasurer's Investment Pool. Although the Pool itself is unrated, it is invested according to the requirements of State law, which allows only limited investments in instruments subject to credit risk. State law further requires that investments in obligations of corporations and in state or political subdivisions of the United States have an investment grade rating from at least two nationally recognized rating agencies. The Authority has limits established in agreement with its rating agency as to the amount that can be deposited in the State Treasurer's Investment Pool at any given time. State Law also requires that guaranteed investment contracts (GIC's) bear the two highest ratings from at least two nationally recognized rating agencies at the time of purchase. See *Note 16* for additional information.

**Concentration of Credit Risk**

The Authority places no limit on the amount it may invest in any one issuer. More than 5% of the Authority's investments are in the following investments: *Guaranteed Investment Contracts 56.84%, and Tri-Party Repo's 37.04%*. The amounts invested in Guaranteed Investment Contracts are divided among a number of different providers in order to further limit the risk in this category of investments.

**Restricted Deposits and Investments**

Under provisions of applicable debt indentures, the Authority is required to restrict sufficient assets with an independent trustee (The Bank of New York) in the Single Family Program Fund to meet reserve requirements in order to meet reserve requirements for payment of debt service on bonds. The required and actual reserve amounts for each program at June 30, 2008 are as follows:

	<b>Reserve Requirements</b>	<b>Actual Funding</b>	<b>Over (Short)</b>
Single Family Mortgage Reserve Funds-1998	\$ 3,048,750	\$ 3,209,250	\$ 160,500
Mortgage Revenue Bond Reserve Funds	5,429,400	12,119,327	6,689,927
Totals	\$ 8,478,150	\$ 15,328,577	\$ 6,850,427

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 2011-2037 plus interest ranging from 1%-5.5% per payable in monthly installments of principal and interest, as provided in the notes.	\$ 10,655,015
---	---------------

Total governmental funds	<u>\$ 10,655,015</u>
--------------------------	----------------------

**Proprietary Funds**

General Operating Fund notes maturing in various dates from 2021-2037 plus interest ranging from 3%-6.25% per annum, payable in installments of principal and interest as provided in the notes.	\$ 67,147,222
---	---------------

Program Fund notes maturing on various dates from 2009- 2032 plus interest ranging from 2.79% - 8% per annum; payable in monthly installments of principal and interest as provided in the notes. Reported net of Allowance for Doubtful Accounts of \$289,824.	8,181,563
---	-----------

Single Family Finance Programs notes maturing on dates from 2009-2038 plus interest ranging from 4%-12.3% per annum, payable in monthly installments of principal and interest.	<u>793,854,635</u>
--	--------------------

Total proprietary funds	<u>\$ 869,183,420</u>
-------------------------	-----------------------

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, 2008 was as follows:

	<b>Beginning Balances July 1, 2007</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances June 30, 2008</b>
Equipment and furniture	\$ 1,249,727	\$ 53,456	\$ (97,903)	\$ 1,205,280
Accumulated depreciation	(479,012)	(42,019)	-	(521,031)
Capital assets, net of accumulated depreciation	<u>\$ 770,715</u>	<u>\$ 11,437</u>	<u>\$ (97,903)</u>	<u>\$ 684,249</u>

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

Long-term liabilities activity for the year ended June 30, 2008 was as follows:

	<b>Beginning Balances July 1, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balances June 30, 2008</b>	<b>Due within One Year</b>
Bonds payable	\$ 692,755,000	\$ 103,000,000	\$ 41,720,000	\$ 754,035,000	\$ 26,170,000
Unamortized premiums and discounts	8,607,084	1,992,922	329,532	10,270,474	288,707
Deferred amount on refunding	(2,339,285)	174,869	-	(2,164,416)	(164,865)
Total bonds payable	<u>699,022,799</u>	<u>105,167,791</u>	<u>42,049,532</u>	<u>762,141,058</u>	<u>26,293,842</u>
Notes Payable	-	75,165,000	25,165,000	50,000,000	50,000,000
Accrued compensated absences	733,589	456,782	403,514	786,857	488,674
Totals	<u>\$ 699,756,388</u>	<u>\$ 180,789,573</u>	<u>\$ 67,618,046</u>	<u>\$ 812,927,915</u>	<u>\$ 76,782,516</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**6. Bonds and Notes Payable**

At June 30, 2008, bonds and notes payable, including unamortized premiums and net of unamortized discounts and deferred losses on refunding of debt, consisted of the following:

	Date Issued	Issue Amount	Outstanding Balance
Single Family Mortgage Revenue Bonds 1998 (5.00% to 5.50%) due 2014-2035	09/11/98	\$ 106,975,000	\$ 101,625,000
Plus, unamortized premium			1,039,487
			102,664,487
 Mortgage Revenue Bonds			
1994A (6.20% to 6.75%) due 2009-2026	10/20/94	30,000,000	3,060,000
1995A (6.00% to 6.70%) due 2008-2027	03/01/95	25,000,000	3,890,000
1996A (5.70% to 6.35%) due 2008-2028	05/01/96	25,000,000	5,620,000
1997A (5.25% to 5.95%) due 2008-2029	06/01/97	30,000,000	11,560,000
1999A (4.65% to 5.40%) due 2008-2031	12/23/98	37,700,000	12,015,000
1999B (5.10% to 8.30%) due 2008-2032	11/01/99	139,910,000	42,855,000
2000A (5.75% to 6.40%) due 2008-2031	06/01/00	121,435,000	32,085,000
2001A (4.30% to 5.50%) due 2008-2033	08/01/01	63,455,000	34,385,000
2002A (2.95% to 4.95%) due 2008-2034	10/16/02	39,500,000	26,365,000
2003A (2.60% to 5.45%) due 2008-2034	09/10/03	50,000,000	35,575,000
2004A (3.05% to 5.50%) due 2008-2035	07/01/04	100,000,000	86,035,000
2005A (3.00% to 5.00%) due 2008-2036	06/15/05	81,720,000	76,345,000
2006A/B (3.70% to 5.75%) due 2008-2037	06/30/06	98,000,000	96,415,000
2006C (3.55% to 5.50%) due 2008-2037	12/19/06	83,540,000	83,205,000
2007A (3.90% to 5.50%) due 2009-2037	09/11/07	83,000,000	83,000,000
2008A (2.85% to 6.00%) due 2009-2039	06/04/08	20,000,000	20,000,000
			652,410,000
Plus: Unamortized premiums			9,418,318
Less: Unamortized discounts			(187,331)
Unamortized deferred losses on refundings on debt			(2,164,416)
			659,476,571
 Mortgage Revenue Notes Payable			
2007B (3.87%) due 2008	09/11/07	50,000,000	50,000,000
Total bonds and notes payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			\$ 812,141,058

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

Amounts, including interest, required to complete payment of the bond and note obligations as of June 30, 2008 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 76,170,000	\$ 39,981,967	\$ 116,151,967
2010	12,815,000	38,225,275	51,040,275
2011	13,325,000	37,628,293	50,953,293
2012	13,965,000	36,992,242	50,957,242
2013	14,445,000	36,309,273	50,754,273
2014-2018	92,305,000	168,619,955	260,924,955
2018-2023	136,160,000	138,859,853	275,019,853
2024-2028	145,720,000	99,485,766	245,205,766
2029-2033	168,685,000	58,206,319	226,891,319
2034-2038	126,435,000	15,946,251	142,381,251
2039-2043	4,010,000	130,680	4,140,680
Total	<u>\$ 804,035,000</u>	<u>\$ 670,385,874</u>	<u>\$ 1,474,420,874</u>

The Authority has the option to redeem most of its bonds prior to maturity on any interest payment date, or on the first of any month, as specified under each bond issue, plus accrued interest to the date of redemption. Below is a listing of the Single Family Finance Program bonds the Authority redeemed prior to their maturity during the year ended June 30, 2008:

Single Family Finance Programs:

Mortgage Revenue Bonds	
Series 1994 A	\$ 420,000
Series 1995 A	445,000
Series 1996 A	535,000
Series 1997 A	1,285,000
Series 1999 A and B	8,035,000
Series 2000 A	3,860,000
Series 2001 A	3,435,000
Series 2002 A	2,975,000
Series 2003 A	3,290,000
Series 2004 A	5,180,000
Series 2005 A	1,780,000
Series 2006 A and B	1,595,000
Total	<u>\$ 32,835,000</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

Amortization of bond discounts for the year ended June 30, 2008 that were included in bond interest expense in the Single Family Finance Programs Fund was \$9,935.

Bond premium amortized for the year ended June 30, 2008 and attributable to the Single Family Finance Programs Fund bonds totaled \$354,270 and was reported as a single item revenue amount in the proprietary fund.

Amortization of deferred losses on refundings of debt of \$174,869 for the year ended June 30, 2008 and attributable to the Single Family Finance Programs Fund bonds was included in bond interest expense in the proprietary fund.

In June 2007, the Authority executed a revolving Mortgage Prepayment Refunding Note with Wachovia Bank, N.A. for \$21 million. Pursuant to the terms of the note agreement, the amount outstanding at any given time must not exceed \$21 million. The primary purpose of this note is to function as a vehicle to preserve the federally limited tax-exempt private activity volume cap pursuant to the federal tax code. There was no outstanding balance at June 30, 2008. Subsequent to year-end, Wachovia Bank, N.A. was purchased by Citigroup.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. **Leases**

At June 30, 2008, the Authority was obligated under various operating leases with external parties for office space and office equipment having noncancelable lease terms in excess of one year.

The lease for the Authority's office space expires in October 2009 and is payable monthly. The Authority is responsible for the pro rata share of increases in the building's operating costs over the preceding rental year. However, the increase in a given year may not exceed 3.1%.

Office equipment leases expire in various fiscal years from 2009 through 2011.

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

<u>Year Ending June 30,</u>	
2009	\$ 292,858
2010	96,890
2011	4,956
Total leases with external entities	<u>\$ 394,704</u>

The Authority incurred rental expense of approximately \$265,224 under the aforementioned leases for the fiscal year ended June 30, 2008.

The Authority also leases motor vehicles from the State Budget and Control Board which can be cancelled with 30 days notice. Under this lease agreement, the Authority incurred expenses of \$131,508 in fiscal year 2008.

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

In addition to the above leases, the Authority has entered into four noncancellable copier leases with outside entities on a "pay per copy" plan due to expire in the fiscal year ending June 30, 2011. Approximately \$49,339 was expended under these leases during the fiscal year ended June 30, 2008.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**8. Transactions with State Entities**

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

- The South Carolina Department of Revenue collects documentary stamp taxes and remits \$.20 of every \$1.30 collected to the Authority for the Housing Trust Fund.
- Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking and investment functions from the State Treasurer; and legal services from the Attorney General.
- Services provided at no cost from various divisions of the State Budget and Control Board include retirement plan administration, grant services, insurance plan administration, personnel management, review, and approval of certain budget amendments, procurement services, and other centralized functions.
- Financial transactions include payments to divisions of the State Budget and Control Board for vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Payments were also made for the workers' compensation insurance coverage and unemployment compensation. The expenditures for such items applicable to fiscal year 2008 expenditures were not readily available.

**9. Fund Transfers**

Fund transfers to and from other funds, which are legally allowable and not in accordance with the terms of the respective bond indentures, as applicable during the year ended June 30, 2008 follows:

- \$5,994,000 from the Single Family Finance Program to the General Operating Fund to fund operating expenses.
- \$1,002 from the Multi-Family Finance Program to the Program Fund to merge the Multi-Family Finance Program into the Program Fund.
- \$5,170,404 from the General Operating Fund to the Program Fund to fund special initiatives authorized by the Board.
- \$509,588 from the General Operating Fund to the Single Family Finance Program to fund loan servicing release premiums.
- \$740,000 from the Program Fund to the Single Family Finance Program to fund bond issuance costs as authorized by the Board.
- \$400,000 from the Housing Trust Fund to the General Operating Fund to fund administrative and operational expenses.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**10. Risk Management**

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

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

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

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

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**10. Risk Management (Continued)**

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

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

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

**11. Conduit Debt**

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

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
	<b>Fiscal Year 1986 (85/86)</b>		
12/85	Multi-Family Guaranteed Mortgage Revenue Bonds, (Paces Run Apartments/CTS Parklane Project)	\$ 12,050,000	\$ 12,050,000
	<b>Fiscal Year 1989 (88/89)</b>		
07/88	Multi-Family Housing Revenue Bonds (Paces Landing Series 1988)	8,750,000	8,750,000
	<b>Fiscal Year 1996 (95/96)</b>		
11/95	Multi-Family Housing Revenue Refunding Bonds (Runaway Bay)	8,365,000	8,365,000
	<b>Fiscal Year 2000 (99/00)</b>		
07/99	Multi-Family Housing Revenue Bonds (CTS Rock Hill Project)	9,145,000	9,145,000

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
<b>Fiscal Year 2001 (00/01)</b>			
10/00	Multi-Family Rental Housing Revenue Bonds (City Heights Apts.)	6,750,000	6,125,000
10/00	Multi-Family Rental Housing Revenue Bonds (Spartanburg Terrace Apts.)	4,750,000	4,310,000
10/00	Multi-Family Housing Revenue Bonds (Piedmont Manor Apts.)	6,250,000	5,645,000
12/00	Multi-Family Rental Housing Revenue Bonds (Bent Tree Apts./Richland Oxford)	11,130,000	11,130,000
06/01	Multi-Family Housing Revenue Bonds (Fairway Apts. Project)	7,735,000	7,735,000
06/01	Multi-Family Rental Housing Revenue Refunding Bonds (Martin's Creek Project)	7,300,000	7,300,000
<b>Fiscal Year 2002 (01/02)</b>			
08/01	Multi-Family Housing Revenue Refunding Bonds (North Slope Apts./Greenville Oxford Project)	4,955,000	4,955,000
08/01	Multi-Family Housing Revenue Refunding Bonds (Springhouse Apts./Charleston Oxford Project)	10,180,000	8,600,000
08/01	Multi-Family Housing Revenue Refunding Bonds (Hunt Club Apts./Spartanburg Oxford Project)	9,415,000	9,415,000
12/01	Multi-Family Rental Housing Revenue Bonds (Cedarwood Apartments-Columbia, SC)	8,750,000	8,180,000
12/01	Multi-Family Rental Housing Revenue Bonds (Belton Woods Apts.)	5,795,000	5,110,000
<b>Fiscal Year 2003 (02/03)</b>			
12/02	Multi-Family Rental Housing Revenue Bonds (Poplar Square Apartments)	2,960,000	2,457,063
12/02	Multi-Family Rental Housing Revenue Bonds (Spring Grove Apartments Project)	7,410,000	7,135,000
<b>Fiscal Year 2004 (03/04)</b>			
04/04	Multi-Family Rental Housing Revenue Bonds (Beverly Apartments Project)	3,010,000	2,940,000
04/04	Multi-Family Rental Housing Revenue Bonds (Hillandale Apartments Project)	6,660,000	6,320,000
06/04	Multi-Family Rental Housing Revenue Bonds (Greenville Arms Apartments Project)	4,625,000	4,185,000
06/04	Multi-Family Rental Housing Revenue Bonds (Canebreak Apartments Project)	4,500,000	4,431,430

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**11. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 2005 (04/05)</b>			
07/04	Rental Housing Revenue Bonds (Bayside Apartments Project)	17,250,000	17,250,000
08/04	Multi-Family Rental Housing Revenue Bonds (Oakfield Apartments Project)	2,844,000	2,506,000
12/04	Multi-Family Rental Housing Revenue Bonds (Wyndham Pointe Apartments Project)	9,400,000	9,400,000
12/04	Multi-Family Rental Housing Revenue Bonds (Planters Retreat Apartments Project)	11,850,000	10,922,380
05/05	Multi-Family Rental Housing Revenue Bonds (Wenmont Apartments Project)	6,210,000	6,163,113
<b>Fiscal Year 2006 (05/06)</b>			
09/05	Multifamily Rental Housing Revenue Bonds (Hallmark Homes Apartments Project)	12,840,000	12,840,000
09/05	Multifamily Rental Housing Revenue Bonds (Appian Way Apartments Project)	11,500,000	11,500,000
09/05	Multifamily Rental Housing Revenue Bonds (Cross Creek Apartments Project)	8,850,000	8,850,000
01/06	Multifamily Rental Housing Revenue Bonds (Rocky Creek Apartments Project)	12,745,000	12,745,000
<b>Fiscal Year 2008 (07/08)</b>			
10/07	Multifamily Rental Housing Revenue Bonds (Towers East Apartments Project)	11,500,000	11,410,000
10/07	Multifamily Rental Housing Revenue Bonds (Spanish Trace Apartments Project)	3,685,000	3,665,000
10/07	Multifamily Rental Housing Revenue Bonds (Various Rural Housing Apartment Projects)	27,692,000	27,692,000
01/08	Multifamily Rental Housing Revenue Bonds (Bridle Ridge Apartments)	7,885,000	7,885,000
Total		<u>\$ 294,736,000</u>	<u>\$ 287,111,986</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**12. Pension Plan**

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

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**12. Pension Plan (Continued)**

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

Beginning July 1, 2006, employees participating in the SCRS have been required to contribute 6.50 percent of all compensation. For the year ended June 30, 2008, the employer contribution rate was 9.06 percent (before a surcharge to fund retiree health and dental insurance coverage). For the year ended June 30, 2006, this rate was 7.55 percent and for the year ended June 30, 2007, this rate was 8.05 percent. The Authority's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2008, 2007, and 2006 were approximately \$389,000, \$377,000 and \$376,000 respectively, and equaled the required contributions (excluding the surcharge) for each year. Also, the Authority paid employer group life insurance contributions of approximately \$7,700 for the current fiscal year at the rate of .15% of compensation.

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**12. Pension Plan (Continued)**

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

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

*Post Employment Benefits*

The State provides post employment health and dental benefits to retired employees and their covered dependents through a plan which has been determined to be a cost-sharing multiple-employer defined benefit post employment healthcare plan by the Comptroller General's Office of the State of South Carolina. The State Budget and Control Board (SBCB) is the Trustee and the plan is administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board. A retiree's eligibility for the health and dental benefits is based on his hire date and years of earned retirement service credit. Generally, ten years of service credit with the SC Retirement System is required for full funding of employees enrolled in the system prior to May 2, 2008. For all others who may become enrolled, eligibility requires fifteen years of service for partial funding and twenty-five years for full funding.

In addition the State provides long-term disability benefits to active employees through the Long-Term Disability Plan which has been determined to be a cost sharing multiple-employer plan by the Comptroller General's Office of the State of South Carolina. The State Budget and Control Board is the Trustee and the plan is administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Benefits under this plan are provided to the employee upon approval of the disability by the South Carolina Retirement System.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires the post employment benefits be funded through annually established employer's contribution rates, also known as the pension surcharge. Funding for the employer's payment of the surcharge is provided through General Appropriations from the State and other sources. Effective May 1, 2008 through Act 195, the State established the South Carolina Retiree Health Insurance Trust Fund and the Long-Term Disability Insurance Trust Fund for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and employee long-term disability benefits. The Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding may include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Authority's actual contribution to this trust fund for the fiscal year ended June 30, 2008 was \$254,000, which equaled the required contribution rate of 3.42%. The Long-Term Disability Insurance Trust Fund is funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee contributed to the trust was \$3.23 for the fiscal year ended June 30, 2008.

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

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

*Other Employee Benefits*

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

The Authority recorded benefit expenses for these insurance benefits for active employees in the amount of \$389,000 for the year ended June 30, 2008.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**14. Deferred Compensation Plans**

Several optional deferred compensation plans are available to State employees and employees of its political subdivisions. Certain employees of the Authority have elected to participate in such plans. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employees. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State has authorized deferred compensation matching contributions, which are funded from various funding sources based on the same percentages used for employees' salaries. The Authority made no contributions for the fiscal year ended June 30, 2008.

**15. Commitments and Contingencies**

*Financial Award Commitments*

As of June 30, 2008, the Authority has financial award commitments outstanding totaling approximately \$20,402,201 under the Housing Trust Fund programs and \$5,338,617 for special initiatives under the Program Fund.

*Financial Crisis and Potential Impacts*

Currently, the United States is suffering a major and very significant financial crisis. This crisis was initially focused on sub-prime mortgage lending and the entities that invested in these types of mortgages. The effects have also had a significant impact on the overall economy, banks, investment banks, insurance companies, state and local governments and others. Over the last several months, we have seen the closure of once strong financial institutions, bankruptcies, forced mergers, federal government takeovers and the proposed creation of a new federal government entity to help deal with the related problems.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**15. Commitments and Contingencies (Continued)**

*Financial Crisis and Potential Impacts (Continued)*

The South Carolina State Housing Finance and Development Authority is not immune to these issues. Although the Authority has not historically engaged in sub-prime lending, it does business with and is dependent on institutions that are connected to sub-prime lending. This includes, but is not limited to:

- Bond underwriters
- Bond insurers
- Providers of guaranteed investment contracts
- Banking institutions
- Private mortgage insurers

Additionally, the United States economy has been significantly impacted by this crisis and other events such as rising food costs, decreasing real property values and gasoline supply shortages, etc. This has drastically impacted families in all income levels, but especially the lower income levels. Historically, the Authority has issued mortgage loans to moderate to lower income individuals and the losses from these loans have been negligible due to adequate collateral and the use of mortgage insurance and mortgage guarantees. While this practice has been effective at limiting losses in the past, it does not insure that the Authority will not suffer losses in the future.

**16. Subsequent Events**

On July 1, 2008, the Authority drew down \$13,055,000 from a Mortgage Prepayment Refunding Note agreement entered into on June 28, 2007 and renewed on June 30, 2008.

On August 28, 2008, the Authority issued \$45,215,000 of Series 2008A Mortgage Revenue Bonds and \$22,000,000 of Series 2008B Mortgage Revenue Notes.

As reported in *Note 15*, the current financial crisis in the United States has had a negative impact on several companies with which the Authority does business. This includes the following downgrades in financial ratings:

- Wachovia Bank, N.A. was downgraded.
- Bond insurer Ambac Assurance Corporation was downgraded by Moody's and other rating organizations.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**16. Subsequent Events (Continued)**

- Since June 30, 2008, two providers of Guaranteed Investment Contracts (GIC) were downgraded. American International Group, Inc. (AIG) was downgraded to A2 with a negative outlook on September 16, 2008 and Depfa Bank, PLC was downgraded to A2 on September 30, 2008. At June 30, 2008 these two providers held approximately \$71.2 million in GICs. However, at the time of the respective downgrades, the amount held had been reduced to \$15 million. AIG returned \$4.2 million held by them and the remaining \$6.6 million is expected to be returned to the Authority in the near future. The Depfa downgrade was so recent that we do not yet know what actions will be taken by them. In the current financial market, we can make no prediction at this time if any of the other GIC providers will be downgraded.

**17. Segment Financial Information**

Segment financial information as required by the bond trustees for each indenture of the Authority's Single Family Finance Programs as of and for the year ended June 30, 2008 is presented on the following pages.

**Statement of Net Assets - June 30, 2008**

	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Totals</b>
<b>Assets</b>			
Current assets:			
Restricted assets:			
Cash and cash equivalents	\$ 2,657,782	\$ 93,981,881	\$ 96,639,663
Loans receivable, net of unamortized discounts	5,257,782	11,773,209	17,030,991
Accrued interest receivable:			
Loans	844,642	4,010,862	4,855,504
Deposits and investments	150,270	310,266	460,536
Due from other funds	-	1,091,937	1,091,937
Unamortized bond issuance costs	39,477	623,149	662,626
Other current assets	-	131,742	131,742
Total current assets	<u>8,949,953</u>	<u>111,923,046</u>	<u>120,872,999</u>
Non-current assets:			
Restricted assets:			
Cash and cash equivalents	36,848,022	81,573,563	118,421,585
Investments	-	1,647,959	1,647,959
Loans receivable, net of unamortized discounts	166,390,788	610,432,856	776,823,644
Unamortized bond issuance costs	700,531	4,950,273	5,650,804
Total noncurrent assets	<u>203,939,341</u>	<u>698,604,651</u>	<u>902,543,992</u>
Total assets	<u>212,889,294</u>	<u>810,527,697</u>	<u>1,023,416,991</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

<b>Statement of Net Assets - June 30, 2008</b>			
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Totals</b>
<b>Liabilities</b>			
Current liabilities:			
Liabilities payable from restricted assets:			
Notes payable	-	50,000,000	50,000,000
Bonds payable	-	26,293,842	26,293,842
Accrued interest payable on bonds	2,657,782	17,688,039	20,345,821
Total liabilities payable from restricted assets	2,657,782	93,981,881	96,639,663
Other liabilities	37,600	196,005	233,605
Total current liabilities	2,695,382	94,177,886	96,873,268
Non-current liabilities:			
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings			
	102,664,487	633,182,729	735,847,216
Total noncurrent liabilities	102,664,487	633,182,729	735,847,216
Total Liabilities	105,359,869	727,360,615	832,720,484
<b>Net Assets</b>			
Restricted for:			
Debt service	2,657,781	37,373,511	40,031,292
Bond Reserves	3,209,250	12,119,327	15,328,577
Special Programs	101,662,394	33,674,244	135,336,638
Total net assets	\$ 107,529,425	\$ 83,167,082	\$ 190,696,507

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

<b>Statement of Revenue, Expenses, and Changes in Net Assets - Year Ended June 30, 2008</b>			
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Totals</b>
<b>Operating revenue</b>			
Interest and other charges on loans	\$ 6,596,244	\$ 36,302,882	\$ 42,899,126
Income on deposits and investments	1,491,984	8,846,438	10,338,422
Administrative fees and other	38,511	330,887	369,398
Total operating revenue	8,126,739	45,480,207	53,606,946
<b>Operating expenses</b>			
Bond interest	5,315,563	34,957,124	40,272,687
Program services	198,070	2,327,521	2,525,591
Bond issuance cost amortization	39,477	646,000	685,477
Other expenses	10,600	660,818	671,418
Total operating expenses	5,563,710	38,591,463	44,155,173
<b>Operating income (loss)</b>	2,563,029	6,888,744	9,451,773
<b>Transfers</b>			
Transfers in	5,258	1,244,330	1,249,588
Transfers out	(5,994,000)	-	(5,994,000)
Total transfers	(5,988,742)	1,244,330	(4,744,412)
Increase (decrease) in net assets	(3,425,713)	8,133,074	4,707,361
Net assets, at beginning of year, as restated	110,955,138	75,034,008	185,989,146
Net assets, at end of year	\$ 107,529,425	\$ 83,167,082	\$ 190,696,507

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

	<b>Statement of Cash Flows - Year Ended June 30, 2008</b>		
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Totals</b>
<b>Cash Flows From Operating Activities</b>			
Receipt of loan principal payments	\$ 20,302,960	\$ 49,830,298	\$ 70,133,258
Purchase/origination of new loans	(22,350,229)	(145,669,682)	(168,019,911)
Payments to vendors	(209,987)	(2,915,870)	(3,125,857)
Other Receipts	-	15,129	15,129
Receipt of Loan Interest Payments	6,551,291	35,701,262	42,252,553
Net cash flows provided by (used in) operating activities	4,294,035	(63,038,863)	(58,744,828)
<b>Cash Flows From Noncapital Financing Activities</b>			
Transfers from other programs	5,258	1,244,330	1,249,588
Transfers to other programs	(5,994,000)	-	(5,994,000)
Loans from other programs	-	(139,771)	(139,771)
Proceeds from sale of bonds	-	105,007,725	105,007,725
Proceeds from sale of notes	-	75,165,000	75,165,000
Principal payments on bonds payable	-	(41,720,000)	(41,720,000)
Principal payments on notes payable	-	(25,165,000)	(25,165,000)
Interest payments on bonds payable	(5,315,562)	(32,866,225)	(38,181,787)
Payment on bond issuance costs	-	(1,231,793)	(1,231,793)
Net cash flows provided by (used in) noncapital financing activities	(11,304,304)	80,294,266	68,989,962
<b>Cash Flows From Investing Activities</b>			
Sale (purchase) of investments	-	749,285	749,285
Income on deposits and investments	1,661,500	9,321,314	10,982,814
Net cash flows provided by (used in) investing activities	1,661,500	10,070,599	11,732,099
Net increase (decrease) in cash and cash equivalents	(5,348,769)	27,326,002	21,977,233
Cash and cash equivalents, beginning of year	44,854,573	148,229,442	193,084,015
Cash and cash equivalents, end of year	\$ 39,505,804	\$ 175,555,444	\$ 215,061,248

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

	<b>Cash Flows - Year Ended June 30, 2008</b>		
	<b>Single Family</b>	<b>Mortgage Revenue</b>	<b>Totals</b>
<b>Reconciliation of Operating Income (Loss) to Cash Flows Provided by (Used in) Operating Activities:</b>			
Operating income (loss)	\$ 2,563,028	\$ 6,888,745	\$ 9,451,773
Adjustments to reconcile operating income (loss) to cash flows provided by (used in) operating activities:			
Bond premium amortization	(38,512)	(315,758)	(354,270)
Bond discount amortization	-	9,935	9,935
Bond early exit amortization	-	174,869	174,869
Bond issuance cost amortization	39,478	645,999	685,477
Bonds interest expense reclassified to non-capital financing activities	5,315,564	34,957,123	40,272,687
Income on deposits and investments reclassified to investing activities	(1,491,984)	(8,846,438)	(10,338,422)
Receipt of loan principal payments	20,302,960	49,830,298	70,133,258
Purchase/origination of new loans	(22,350,229)	(145,669,682)	(168,019,911)
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	-	(131,742)	(131,742)
Increase (decrease) in accounts payable, accrued expenses and due to grantor	(1,317)	19,408	18,091
Increase (decrease) in other liabilities	(44,953)	(601,620)	(646,573)
Total adjustments	1,731,007	(69,927,608)	(68,196,601)
Net cash provided by (used in) operating activities	\$ 4,294,035	\$ (63,038,863)	\$ (58,744,828)

## OTHER FINANCIAL INFORMATION

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

<u>Year Ended June 30, 2008</u> <u>Federal Grantor/Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Total</u> <u>Awards/</u> <u>Expenditures</u>	<u>Awards/</u> <u>Expenditures to</u> <u>Subrecipients</u>
<b>Department of Housing and Urban Development</b>			
Section 8 - Project-Based Cluster:			
New Construction and Substantial Rehabilitation	14.182	\$ 122,497	\$ -
Housing Assistance Payments Program-Special allocations	14.195	96,330,562	2,060,335
Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856	<u>328,939</u>	<u>-</u>
Total Section 8 - Project-Based Cluster:		<u>96,781,998</u>	<u>2,060,335</u>
*HOME Investment Partnership Program	14.239	20,980,180	16,443,316
Section 8 - Housing Choice Vouchers	14.871	<u>11,417,818</u>	<u>173,759</u>
Total Direct - Department of Housing and Urban Development		<u>\$ 129,179,996</u>	<u>\$ 18,677,410</u>

\* Total Expenditures for the HOME Investment Partnership Program include \$10,435,990 of disbursements that have been recorded as Loans Receivable in the Statement of Net Assets and not included as a Nonoperating Expenses - Housing assistance payments and grant awards disbursed.

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

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

We have audited the financial statements of the South Carolina State Housing Finance and Development Authority (the "Authority") as of and for the year ended June 30, 2008, and have issued our report thereon dated September 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. This finding is labeled as 2008-01.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management in a separate letter dated September 30, 2008.

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.



September 30, 2008

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

Compliance

We have audited the compliance of the South Carolina State Housing Finance and Development Authority (the "Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

#### Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in the Authority's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

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

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

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

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

September 30, 2008

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Summary of Auditors' Results:**

Financial Statements:

1. An unqualified opinion dated September 30, 2008, on the financial statements of the Authority for the year ended June 30, 2008 was issued.
2. No material weaknesses relating to the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. One significant deficiency relating to the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. See item **2008-01** below.
4. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.
5. No significant deficiencies relating to the audit of major federal awards is reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
6. The auditor's report on compliance for the major federal award programs for the Authority expresses an unqualified opinion for federal programs.
7. There are no audit findings that are required to be disclosed.
8. The major programs of the Authority are as follows:

<b><u>Program</u></b>	<b><u>CFDA</u></b>
Section 8 Project-Based Cluster:	
New Construction and Substantial Rehabilitation	14.182
Housing Assistance Payments Program-Special Allocations	14.195
Lower Income Housing Assistance Program – Moderate Rehabilitation	14.856
Home Investment Partnership Program	14.239
Section 8 – Housing Choice Vouchers	14.871

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

-CONTINUED-

9. The threshold for distinguishing between Type A and Type B Programs was \$3,875,358.
8. The Authority did not qualify to be a low risk auditee.

**Financial Statement Findings:**

**2008-01**

**Cash Reconciliations**

During our audit of the Authority, we noted that several cash account reconciliations had reconciling items that had not been properly cleared at June 30, 2008. Some of those reconciling items were more than three months old.

When reconciling items are not worked and cleared on a timely basis, they can distort the financial picture of an organization. Additionally, the longer reconciling items remain outstanding, the more difficult it can be to get them resolved.

We recommend that the Authority enforce its current policy for the prompt and accurate clearing of all cash account reconciling items.

**Federal Awards Findings and Questioned Costs:**

No findings or questioned costs.

**Prior Audit Findings and Questioned Costs:**

None.



## 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

September 30, 2008

### Corrective Action Plan

The South Carolina State Housing Finance and Development Authority submits the following corrective action plan for the year ended June 30, 2008.

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, 2008 schedule of findings and questioned costs are discussed below. The finding is numbered consistently with the number assigned in the schedule.

### FINANCIAL STATEMENT FINDINGS

#### 2008-01

##### Cash Reconciliations

Recommendation: We recommend that the Authority enforce its current policy for the prompt and accurate clearing of all cash account reconciling items.

Action Taken: In April 2008, the Authority added a Controller position to the finance department. The Controller will be monitoring the reconciliations to verify that reconciling items are being cleared on a timely basis.