

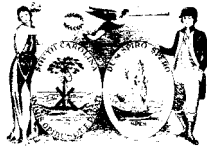
**SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY**

**COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

State of South Carolina



Office of the State Auditor

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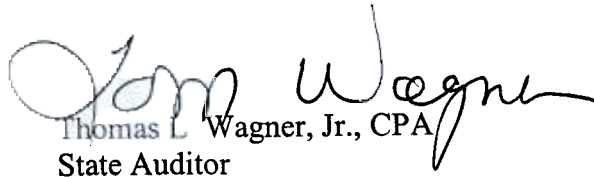
November 8, 2002

The Honorable Jim Hodges, 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 financial statements of the South Carolina State Housing Finance and Development Authority for the fiscal year ended June 30, 2002, was issued by Rogers & Laban, PA, 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,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

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

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# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Carolina State Housing Finance and Development Authority (the Authority) as of and for the year ended June 30, 2002, 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 discussed 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 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, 2002 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, 2002, 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.

As discussed in Note 18, management changed its capitalization policy for capital assets as of June 30, 2001 and discovered errors in the application of accounting principles in recording certain receivables. Prior period adjustments were made to remove those capital assets that exceeded the newly adopted capitalization level and to correct the errors in the application of accounting principles.

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As described in Note 1 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis-For State and Local Governments and Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis-for For State and Local Governments: Omnibus, as of July 1, 2001. This results in a change in the format and content of the financial statements and the accompanying notes to the financial statements.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the financial statements but is supplementary information required by the Government 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 Circular A-133, Audits of States, local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2002 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 results of our audit.

*Rogers & Laban, PA*

October 4, 2002

## South Carolina State Housing Finance and Development Authority Management 's Discussion and Analysis

This section of the South Carolina State Housing Finance and Development Authority's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial condition for the year ending June 30, 2002. Please read it in conjunction with the financial statements included in this report.

### **Financial Highlights**

- Net assets of the Authority increased \$12,412,303 to \$212,291,499 in its proprietary funds.
- The governmental fund increased \$656,186 to \$20,799,206.
- HUD assistance increased \$48,921,771 to \$83,615,699. This increase is due to the administering of Contract Administration for the entire fiscal year. The Contract Administration began in January 2001 at the Authority.
- The Authority redeemed \$39,800,000 in bonds prior to their maturity and issued bonds in the amount of \$63,455,000.
- For this fiscal year ending June 30, 2002, the Authority purchased 1,102 new loans for \$89,331,751 in its enterprise fund and 6 new loans for of \$436,601 in the governmental fund. In addition to new loans, 1,064 loans in the amount of \$47,044,998 paid off early.
- Bonds Outstanding increased \$20,135,000 to \$528,460,000.

### **Overview of the Financial Statements**

The financial statements consist of three parts - management's discussion and analysis, the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the Authority's finances.

- The first two statements are Authority-wide financial statements that provide information about the Authority's overall financial position and results. These statements, which are presented on an accrual basis, consist of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues 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 and are reported in proprietary funds.
- The remaining statements are fund financial statements of the Authority's proprietary fund which operates similar to business activities and for which the Authority follows an accrual basis of accounting and the governmental fund which is a special revenue fund.
- The basic financial statements also include a "Notes to Financial Statements" section that explains the information in the Authority-wide and fund financial statements. The notes also provide a more detailed explanation of data and significant accounting procedures and policies.

The remainder of this overview section explains the structure and contents of each of these statements. The prior year results referred to throughout this section are for comparison purposes only. Any adjustments made have been reported in the notes to the financial statements. If adjustments were made, they would have a minimal effect on the comparisons.

## Fund Financial Statements

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

- Governmental fund - The Authority has one governmental (special revenue) fund. The Authority is the administrator of this special revenue fund. The revenues are collected by the South Carolina Department of Revenue and remitted to the Authority for the purpose of making grants and loans for affordable housing projects and developments. These fund statements focus on how cash and other financial assets flowing into the fund have been used.
- Proprietary fund - The Authority's primary activities are in its proprietary funds, which activities are accounted for in a manner similar to businesses operating in the private sector. Funding has primarily arisen through the issuances of bonds, the proceeds of which are used to make various types of loans to finance low and moderate-income housing. HUD contracts are accounted for in the proprietary fund since the Authority receives fees to administer various HUD programs. The net assets of these programs represent accumulated earnings since their inception and are generally for program purposes.

## Financial Analysis of the Authority as a Whole

**Net Assets.** The combined net assets of the authority increased by \$13,068,488. The following table summarizes the financial position for the Authority as of and for the year ended June 30, 2002. In following years, the Authority plans to present comparative data.

	<b><u>Governmental Funds</u></b>	<b><u>Proprietary Funds</u></b>
Total current assets	\$ 13,708,409	\$ 43,971,208
Capital assets -		104,530
Non-current assets	<u>7,092,596</u>	<u>721,144,637</u>
Total assets	<u>20,801,005</u>	<u>765,220,375</u>
Total current liabilities	1,799	33,624,540
Total long-term liabilities	<u>-</u>	<u>519,304,336</u>
Total liabilities	1,799	552,928,876
Fund equity in capital assets		104,530
Fund equity-restricted		212,100,076
Fund equity-unrestricted	<u>20,799,206</u>	<u>86,893</u>
Total net assets	<u>\$ 20,799,206</u>	<u>\$ 212,291,499</u>

Net assets of the Authority's governmental funds increased \$656,186 to \$20,799,206. 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 \$12,412,302 to \$212,291,499. The increase primarily resulted from the increase of loans receivable by \$29,208,466 and the increase of long-term debt by \$20,284,579. The net increase in cash and investments is \$6,545,702. The net increase in loans receivable and cash less the increase in long-term debt is approximately the net increase in assets.

**Statement of Activities:** The Statement of Activities shows the sources of the Authority's changes in net assets as they progress through the various programs and functions. The Housing Trust Fund is shown as government activities and all other programs are shown as business-type activities. The business-type activities include the Single-Family Loan Programs, the Multi-Family Loan Program and other activities including federal assistance, tax credit, monitoring and other activities which are recorded in the Authority's Administrative program.

A condensed Statement of Activities for the fiscal year ended June 30, 2002 is shown below.

	<b><u>Governmental Type Activities</u></b>	<b><u>Business Type Activities</u></b>	<b><u>Total</u></b>
Revenues:			
Charges for services		\$44,237,766	\$44,237,766
Program Investment Income		6,398,376	6,398,376
Tax/Grant/Federal Revenues	<u>6,659,485</u>	<u>87,664,738</u>	<u>94,324,223</u>
Total Revenues	6,659,485	138,300,880	144,960,365
Expenses	6,003,299	125,423,283	131,426,582
Transfer to State's General Fund		176,681	176,681
Extraordinary Item:			
Loss on early extinguishment of debt	<u>          </u>	<u>288,614</u>	<u>288,614</u>
Increase in Net Assets	<u>\$ 656,186</u>	<u>\$ 12,412,302</u>	<u>\$ 13,068,488</u>

Revenues of the Authority's governmental activities were derived from a documentary stamp tax and all expenditures were grants. Revenues of the Authority's business-type activities were primarily from charges for services (\$44,237,766) and program investment (\$6,398,376). 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 program. Program revenues adequately cover all expenses of the Authority. Program revenues exceeded expenses by \$12,412,302. Net Assets of the Authority's increased from the previous year by \$13,068,488.

### **Debt Administration**

The Authority's total liabilities increased \$22,209,901 to \$552,930,675. Long-term debt increased \$24,416,951 to \$519,304,336. The long-term debt consists of bonds payable at \$519,020,523 and accrued compensated absences in the amount of \$283,813.

### **Economic Factors**

The Authority's financial condition remains consistent in comparison with prior years. The increase in net asset is generally in the same range as previous years. In October 2002, the Authority issued Mortgage Revenue Bonds and Notes in the amount of \$73,000,000 and will refund bonds in the amount of \$8,000,000 in January 2003. The Authority also transferred \$1,617,784 from its proprietary fund to the General Fund of the State of South Carolina in fiscal year 2003.

**SOUTH CAROLINA HOUSING FINANCE AND DEVELOPMENT AUTHORITY**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2002**

	Governmental Activities	Business Type Activities	Totals
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents	\$ 12,095,024	\$ 15,453,437	\$ 27,548,461
Restricted assets:			
Cash and cash equivalents		26,902,392	26,902,392
Accounts receivable		79,739	79,739
Total restricted assets		26,982,131	26,982,131
Accounts receivable:			
Due from State Agency	1,307,790		1,307,790
Due from grantor		986,545	986,545
Other		120,817	120,817
Loans receivable	195,750	405,383	601,133
Accrued interest receivable			
Loans	1,276	21,721	22,997
Deposits and investments	108,569	1,174	109,743
<b>TOTAL CURRENT ASSETS</b>	<b>13,708,409</b>	<b>43,971,208</b>	<b>57,679,617</b>
Non-current assets			
Investments		676,537	676,537
Loans receivable, net of current			
portion and unamortized discounts	7,092,596	22,849,046	29,941,642
Restricted assets:			
Cash and cash equivalents		139,963,057	139,963,057
Accounts receivable		230,000	230,000
Investments		4,121,915	4,121,915
Loans receivable, net of			
unamortized discounts		544,398,305	544,398,305
Accrued interest receivable:			
Loans		4,269,023	4,269,023
Deposits and investments		263,291	263,291
Unamortized bond issuance costs		4,373,463	4,373,463
Capital assets, net of accumulated			
depreciation		104,530	104,530
<b>TOTAL NONCURRENT ASSETS</b>	<b>7,092,596</b>	<b>721,249,167</b>	<b>728,341,763</b>
<b>TOTAL ASSETS</b>	<b>\$ 20,801,005</b>	<b>\$ 765,220,375</b>	<b>\$ 786,021,380</b>

See accompanying Notes to Financial Statements.

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

**STATEMENT OF NET ASSETS (CONTINUED)**  
**JUNE 30, 2002**

	Governmental Activities	Business Type Activities	Totals
<b>LIABILITIES:</b>			
Current liabilities:			
Liabilities payable from restricted assets:			
Mortgage escrows	\$	\$ 5,333,367	\$ 5,333,367
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings		6,770,000	6,770,000
Accrued interest payable on bonds		14,686,153	14,686,153
Other		192,611	192,611
Total liabilities payable from restricted current assets		26,982,131	26,982,131
Accrued compensated absences		280,000	280,000
Accounts payable and accrued expenses		617,335	617,335
Mortgage escrows	1,799		1,799
Due to grantor		5,743,929	5,743,929
Other		1,145	1,145
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,799</b>	<b>33,624,540</b>	<b>33,626,339</b>
 Non- current liabilities:			
Accrued compensated absences, net of current portion		283,813	283,813
Bonds payable, net of current portion an unamortized premiums and discounts and deferral losses on refundings		519,020,523	519,020,523
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>-</b>	<b>519,304,336</b>	<b>519,304,336</b>
<b>TOTAL LIABILITIES</b>	<b>1,799</b>	<b>552,928,876</b>	<b>552,930,675</b>
 <b>NET ASSETS:</b>			
Invested in capital assets		104,530	104,530
Restricted for:			
Debt service		166,230,962	166,230,962
Bond reserves		12,367,569	12,367,569
Special Programs	20,799,206	33,501,545	54,300,751
Unrestricted		86,893	86,893
<b>TOTAL NET ASSETS</b>	<b>\$ 20,799,206</b>	<b>\$ 212,291,499</b>	<b>\$ 233,090,705</b>

**See accompanying Notes to Financial Statements.**

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

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2002**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business - Type Activities	Total
Governmental activities:						
Housing Trust Fund	\$ 6,389,606	\$ -	\$ 386,307	\$ (6,003,299)	\$ -	\$ (6,003,299)
Business-type activities:						
Administrative	8,510,434	6,151,353			(2,359,081)	(2,359,081)
Single-Family Mortgage Loan Programs	31,596,000	34,893,375	6,143,959		9,441,334	9,441,334
Multi-Family Mortgage Loan Programs	1,677,495	2,562,720	67,762		952,987	952,987
Multi-Family Federal Assistance Programs	83,615,699		87,664,738		4,049,039	4,049,039
Program Fund Programs	23,655	630,318	186,655		793,318	793,318
Total business-type activities	125,423,283	44,237,766	94,063,114	(6,003,299)	12,877,597	6,874,298
Totals	<u>\$ 131,812,889</u>	<u>\$ 44,237,766</u>	<u>\$ 94,449,421</u>			
General revenues:						
Documentary stamp taxes				6,659,485		6,659,485
Transfer to General Fund of the State					(176,681)	(176,681)
Extraordinary item:						
Loss on early extinguishment of debt					(288,614)	(288,614)
Change in net assets				656,186	12,412,302	13,068,488
Net assets, at beginning of year, as restated				20,143,020	199,879,197	220,022,217
Net assets, at ending of year				<u>\$ 20,799,206</u>	<u>\$ 212,291,499</u>	<u>\$ 233,090,705</u>

See accompanying Notes to Financial Statements.

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

**BALANCE SHEET - GOVERNMENTAL FUND**

**JUNE 30, 2002**

<b>ASSETS</b>	<b>Housing Trust Fund</b>
Current assets:	
Cash and cash equivalents	\$ 12,095,024
Accounts receivable:	
Due from State Agency	1,307,790
Loans receivable	195,750
Accrued Interest receivable	
Deposits and investments	108,569
Loans	<u>1,276</u>
Total current assets	<u>13,708,409</u>
Non-current assets:	
Loans receivable, net of current portion	<u>7,092,596</u>
Total non-current assets:	<u>7,092,596</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 20,801,005</u></b>
 <b>LIABILITIES AND FUND BALANCE</b>	
Current liabilities:	
Mortgage escrow s	<u>\$ 1,799</u>
Total current liabilities:	<u>1,799</u>
Fund Balance:	
Reserved for long-term receivables	
Unreserved	7,092,596
Restricted for special programs	<u>13,706,610</u>
Total fund balance	<u>20,799,206</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 20,801,005</u></b>

**See accompanying Notes to Financial Statements.**

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
FUND BALANCE - GOVERNMENTAL FUND  
YEAR ENDED JUNE 30, 2002**

	<b>Housing Trust Fund</b>
<b>REVENUES:</b>	
Documentary stamp taxes	\$ 6,659,485
Interest on loans	127,184
Interest on deposits and investments	<u>259,123</u>
Total revenues	<u>7,045,792</u>
<b>EXPENDITURES:</b>	
Grants for housing trust programs	<u>6,389,606</u>
Total expenditures	<u>6,389,606</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	656,186
<b>FUND BALANCE, at beginning of year</b>	<u>20,143,020</u>
<b>FUND BALANCE, at end of year</b>	<u><u>\$ 20,799,206</u></u>
<b>See accompanying Notes to Financial Statements.</b>	

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

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

**JUNE 30, 2002**

	<u>General Operating</u>	<u>Single Family Finance Programs</u>	<u>Multi-Family Finance Programs</u>	<u>Program</u>	<u>Totals</u>
<b>ASSETS:</b>					
Current assets:					
Cash and cash equivalents	\$ 8,979,330	\$	\$	\$ 6,474,107	\$ 15,453,437
Restricted assets:					
Cash and cash equivalents		25,292,099	1,610,293		26,902,392
Accounts receivable:			79,739		79,739
Accounts receivable:					
Due from grantor	986,545				986,545
Other				120,817	120,817
Loans receivable	379,144			26,239	405,383
Accrued interest receivable:					
Deposits and investments				1,174	1,174
Loans				21,721	21,721
Total current assets	<u>10,345,019</u>	<u>25,292,099</u>	<u>1,690,032</u>	<u>6,644,058</u>	<u>43,971,208</u>
Non-current assets:					
Investments				676,537	676,537
Loans receivable, net of current portion and unamortized discounts	14,052,637			8,796,409	22,849,046
Restricted assets:					
Cash and cash equivalents		139,331,807	631,250		139,963,057
Accounts receivable			230,000		230,000
Investments		3,890,296	231,619		4,121,915
Loans receivable, net of unamortized discounts		523,056,212	21,342,093		544,398,305
Accrued interest receivable:					
Deposits and investments		245,324	17,967		263,291
Loans		4,077,491	191,532		4,269,023
Unamortized bond issuance costs		4,168,370	205,093		4,373,463
Capital assets, net of accumulated depreciation	<u>104,530</u>				<u>104,530</u>
Total non-current assets	<u>14,157,167</u>	<u>674,769,500</u>	<u>22,849,554</u>	<u>9,472,946</u>	<u>721,249,167</u>
<b>TOTAL ASSETS</b>	<u>\$24,502,186</u>	<u>\$ 700,061,599</u>	<u>\$ 24,539,586</u>	<u>\$ 16,117,004</u>	<u>\$ 765,220,375</u>

**See accompanying Notes to Financial Statements.**

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

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS (CONTINUED)**

**JUNE 30, 2002**

	<u>General Operating</u>	<u>Single Family Finance Programs</u>	<u>Multi-family Finance Programs</u>	<u>Program</u>	<u>Totals</u>
<b>LIABILITIES</b>					
Current liabilities:					
Liabilities payable from restricted assets:					
Bonds payable		\$ 6,405,000	\$ 365,000		\$ 6,770,000
Accrued interest payable on bonds		14,536,954	149,199		14,686,153
Mortgage escrows		4,157,534	1,175,833		5,333,367
Other		192,611			192,611
Total liabilities payable from restricted assets		25,292,099	1,690,032		26,982,131
Accrued compensated absences	280,000				280,000
Accounts payable and accrued expenses	617,335				617,335
Due to grantor	5,743,929				5,743,929
Other liabilities				1,145	1,145
Total current liabilities	<u>6,641,264</u>	<u>25,292,099</u>	<u>1,690,032</u>	<u>1,145</u>	<u>33,624,540</u>
Non-current liabilities:					
Accrued compensated absences, net of current portion	283,813				283,813
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings		502,538,918	16,481,605		519,020,523
Total noncurrent liabilities	<u>283,813</u>	<u>502,538,918</u>	<u>16,481,605</u>		<u>519,304,336</u>
<b>TOTAL LIABILITIES</b>	<u>6,925,077</u>	<u>527,831,017</u>	<u>18,171,637</u>	<u>1,145</u>	<u>552,928,876</u>
<b>NET ASSETS</b>					
Invested in capital assets	104,530				104,530
Restricted for:					
Debt service		160,094,632	6,136,330		166,230,962
Debt service reserves		12,135,950	231,619		12,367,569
Special programs	17,385,686			16,115,859	33,501,545
Unrestricted	86,893				86,893
<b>TOTAL NET ASSETS</b>	<u>\$17,577,109</u>	<u>\$172,230,582</u>	<u>\$6,367,949</u>	<u>\$16,115,859</u>	<u>\$ 212,291,499</u>

See accompanying Notes to Financial Statements.



**SOUTH CAROLINA STATE HOUSING AND DEVELOPMENT AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2002**

	General Operating	Single Family Finance Programs	Multi-family Finance Programs	Program	Totals
<b>OPERATING REVENUES:</b>					
Pledged revenues:					
Interest and other charges on loans	\$ 110,641	\$ 34,893,375	\$ 2,562,720	\$ 326,483	\$ 37,893,219
Income on deposits and investments		6,105,448	67,762	186,655	6,359,865
<b>OTHER REVENUES:</b>					
Bond premium amortization		38,511			38,511
Administrative fees and other	6,040,712			303,835	6,344,547
Total operating revenues	<u>6,151,353</u>	<u>41,037,334</u>	<u>2,630,482</u>	<u>816,973</u>	<u>50,636,142</u>
<b>OPERATING EXPENSES:</b>					
Bond interest		29,746,444	1,196,627		30,943,071
Program services		1,422,840	465,296		1,888,136
General and administrative	8,476,671			23,655	8,500,326
Bond issuance cost amortization		245,927	15,572		261,499
Depreciation of capital assets	32,057				32,057
Other expenses		180,789			180,789
Total operating expenses	<u>8,508,728</u>	<u>31,596,000</u>	<u>1,677,495</u>	<u>23,655</u>	<u>41,805,878</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(2,357,375)</u>	<u>9,441,334</u>	<u>952,987</u>	<u>793,318</u>	<u>8,830,264</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Housing assistance contributions earned	87,664,738				87,664,738
Housing assistance payments	(83,615,699)				(83,615,699)
Loss on disposal of capital assets	(1,706)				(1,706)
Total nonoperating revenue (expenses)	<u>4,047,333</u>				<u>4,047,333</u>
<b>INCOME BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS</b>	<u>1,689,958</u>	<u>9,441,334</u>	<u>952,987</u>	<u>793,318</u>	<u>12,877,597</u>
<b>TRANSFERS:</b>					
Transfers from (to) other programs - net	13,673,160	(2,904,000)	(788,447)	(9,980,713)	
Transfer to General Fund of the State	<u>(176,681)</u>				<u>(176,681)</u>
Total transfers	<u>13,496,479</u>	<u>(2,904,000)</u>	<u>(788,447)</u>	<u>(9,980,713)</u>	<u>(176,681)</u>
<b>INCOME (LOSS) BEFORE EXTRAORDINARY ITEM</b>	15,186,437	6,537,334	164,540	(9,187,395)	12,700,916
<b>EXTRAORDINARY ITEM:</b>					
Loss on early extinguishment of debt		<u>(288,614)</u>			<u>(288,614)</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	15,186,437	6,248,720	164,540	(9,187,395)	12,412,302
<b>NET ASSETS, AT BEGINNING OF YEAR, AS RESTATED</b>	<u>2,390,672</u>	<u>165,981,862</u>	<u>6,203,409</u>	<u>25,303,254</u>	<u>199,879,197</u>
<b>NET ASSETS, AT END OF YEAR</b>	<u>\$ 17,577,109</u>	<u>\$ 172,230,582</u>	<u>\$ 6,367,949</u>	<u>\$ 16,115,859</u>	<u>\$ 212,291,499</u>

See accompanying Notes to Financial Statements.

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**JUNE 30 2002**

	<u>General Operating</u>	<u>Single Family Finance Programs</u>	<u>Multi-Family Finance Programs</u>	<u>Program</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipt of loan payments	\$ 227,055	\$ 94,334,651	\$4,336,891	\$2,495,862	\$ 101,394,459
Purchase/origination of new loans	(4,049,039)	(85,282,712)	(433,278)	(2,093,361)	(91,858,390)
Receipts from HUD	4,905,461				4,905,461
Other receipts	4,938,050		3,460	643,371	5,584,881
Payments to employees	(4,708,069)				(4,708,069)
Payments to vendors	(3,658,708)	(960,264)	(465,296)	(9,955)	(5,094,223)
Payments to customers			(1,309,661)		(1,309,661)
Net cash provided (used) for operating activities	<u>(2,345,250)</u>	<u>8,091,675</u>	<u>2,132,116</u>	<u>1,035,917</u>	<u>8,914,458</u>
<b>CASH FLOWS FROM CAPITAL AND AND RELATED FINANCING ACTIVITIES</b>					
Purchase of capital assets	<u>(6,954)</u>				<u>(6,954)</u>
Net cash provided (used) for capital and related financing activities	<u>(6,954)</u>				<u>(6,954)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from other programs	3,280,003			894,446	4,174,449
Transfers to other programs	(105,999)	(2,904,000)	(788,447)	(376,003)	(4,174,449)
Receipts from HUD	87,664,738				87,664,738
Payments of housing assistance	(83,615,699)				(83,615,699)
Transfer to General Fund of the State	(176,681)				(176,681)
Proceeds from sale of bonds		63,455,000			63,455,000
Principal payments on bonds payable		(42,975,000)	(345,000)		(43,320,000)
Interest payments on bonds payable		(29,187,917)	(1,185,323)		(30,373,240)
Payment on bond issuance costs		(664,491)			(664,491)
Net cash provided (used) for noncapital activities	<u>7,046,362</u>	<u>(12,276,408)</u>	<u>(2,318,770)</u>	<u>518,443</u>	<u>(7,030,373)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of investments		16,386,938			16,386,938
Income on deposits and investments		7,928,833	79,804	194,078	8,202,715
Net cash provided (used) for investing activities		<u>24,315,771</u>	<u>79,804</u>	<u>194,078</u>	<u>24,589,653</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>4,694,158</u>	<u>20,131,038</u>	<u>(106,850)</u>	<u>1,748,438</u>	<u>26,466,784</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>4,285,172</u>	<u>144,492,868</u>	<u>2,348,393</u>	<u>4,725,669</u>	<u>155,852,102</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 8,979,330</u>	<u>\$ 164,623,906</u>	<u>\$2,241,543</u>	<u>\$6,474,107</u>	<u>\$ 182,318,886</u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA HOUSING FINANCE AND DEVELOPMENT AUTHORITY**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)**  
**JUNE 30, 2002**

	<u>General Operating</u>	<u>Single Family Finance Programs</u>	<u>Multi-Family Finance Programs</u>	<u>Program</u>	<u>Totals</u>
<b>Reconciliation of net operating income (loss) to net cash flows provided by (used for) operating activities:</b>					
Net operating income (loss)	<u>\$ (2,357,375)</u>	<u>\$9,441,334</u>	<u>\$952,987</u>	<u>\$793,318</u>	<u>\$ 8,830,264</u>
Adjustments to reconcile net operating income (loss) to net cash flow s provided by (used for) operating activities:					
Depreciation	32,157				32,157
Bond premium paid on early redemption		(160,400)			(160,400)
Bond premium amortization		(38,511)			(38,511)
Bond issuance cost amortization		245,927	15,572		261,499
Bonds interest expense reclassified to noncapital financing activities		29,746,444	1,196,627		30,943,071
Income on deposits and investments reclassified to investing activities		(6,105,448)	(67,762)	(186,655)	(6,359,865)
Mortgage loan discounts amortization		(8,668)			(8,668)
Mortgage loan principal adjustment		1,292			1,292
Receipt of loan principal payments	116,414	59,442,227	635,765	2,462,893	62,657,299
Purchase/origination of new loans	(4,049,039)	(85,282,712)	(433,278)	(2,093,361)	(91,858,390)
Change in assets and liabilities:					
Increase (decrease) in long-term investments				36,281	36,281
Increase (decrease) in accounts receivable	3,178,206		3,460	21,908	3,203,574
Increase(decrease) in accounts payable, accrued expenses and due to grantor	734,387				734,387
Increase(decrease) in mortgage escrow s		1,077,092	(195,177)	(878)	881,037
Increase(decrease) in other liabilities		15,311			15,311
Increase(decrease) in accrued interest receivable-loans		<u>(282,213)</u>	<u>23,922</u>	<u>2,411</u>	<u>(255,880)</u>
Total adjustments	<u>12,125</u>	<u>(1,349,659)</u>	<u>1,179,129</u>	<u>242,599</u>	<u>84,194</u>
Net cash provided by (used for) operating activities	<u>\$ (2,345,250)</u>	<u>\$ 8,091,675</u>	<u>\$ 2,132,116</u>	<u>\$ 1,035,917</u>	<u>\$ 8,914,458</u>

**See accompanying Notes to Financial Statements.**

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

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2002**

**SUPPLEMENTAL INFORMATION**

**OPERATING ACTIVITIES**

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

General Operating Fund	\$ 110,641
Single Family Finance Programs Fund	35,166,920
Multi-Family Finance Program Fund	2,538,798
Program Fund	<u>324,072</u>
Total	<u><u>\$ 38,140,431</u></u>

**NONCASH CAPITAL AND RELATED FINANCING**

- a. Furniture and equipment with a cost of \$19,364 and accumulated depreciation of \$17,658 were included disposal of capital asset for a net of \$1,294.

**NONCASH INVESTING**

- a. The increase in fair value of investments for the year ended June 30, 2002 that is included in these financial statements in "investment income" follows:

Single Family Finance Programs	\$ 88,766
Program funds	<u>\$ 7,575</u>
Total	<u><u>\$ 96,341</u></u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

- a. Interest payments on bonds do not include \$70,078 amortization of bond discounts and \$204,265 of amortization of deferred losses on refundings of debt that were included in operating expense as bond interest.

	Bond Discounts	Deferred Losses on Refundings
Single Family Finance Programs Funds	\$ 55,776	\$ 204,265
Multi-Family Finance Programs Fund	<u>14,302</u>	<u></u>
Total	<u><u>\$ 70,078</u></u>	<u><u>\$ 204,265</u></u>

- b. Unamortized bond discounts of \$87,033 and unamortized bond issuance costs of \$201,581 were written off as an extraordinary loss in the Single Family Finance Programs Fund.
- c. Loans with unpaid balances of \$10,499,156 that were made under the Home Program were transferred from the Program Fund in the General Operating Fund.

**See accompanying Notes to Financial Statements.**

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

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

#### **Reporting Entity**

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

The Authority is a public body, corporate and politic, and a reporting entity of the primary government of the State of South Carolina. The Authority was established pursuant to Section 31-13-20, an Amendment to the Housing Authorities, a Law of South Carolina. 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), as amended in 1982 (31-13-70), 1983 (31-13-80), 1986 (31-1-340), 1988 (31-13-50) and 1990 (31-13-200).

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

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

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, 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 determined it 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.

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

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

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 and it has no component units.

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

The Authority has issued bonds and notes which are insured, secured and/or guaranteed such that the Authority has no liability. These bonds and notes are identical to industrial development bonds. Original issue amounts and the related investments are not included in the financial statements of the Authority.

#### **Fund Accounting**

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

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

#### **Governmental Funds**

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

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

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

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

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

#### **Proprietary Funds**

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

**The General Operating Fund** records administrative fees from the U.S. Department of Housing and Urban Development (HUD) programs and the Multi-family Finance Program and other fee type income. These sources of funds as well as operating transfers from other programs are used to defray the general and administrative expenses of the Authority. The general operating fund also accounts for housing assistance contributions earned from HUD and payments made by the Authority to qualified recipients under the HUD programs.

**The Single Family Finance Programs Fund** accounts for the financing activities of the Authority's 1979 Single Family Mortgage Purchase Bond Indenture, 1982 Homeownership Mortgage Purchase Bond Resolution and 1994 Mortgage Revenue Bonds Indenture. The proceeds of each series of bonds issued under the three programs are used to purchase mortgage loans made to the State's moderate-to-low income citizens who meet Federal and State eligibility requirements. The programs generate income to cover the costs of administration and debt service on the bonds. Excess funds may be transferred to the other programs at the discretion of the Authority.

**The Multifamily Finance Programs Fund** accounts for the financing activities of the Authority's multi-family residential revenue bond indentures. Fourteen mortgages have been purchased covering projects that house low-income citizens meeting Federal eligibility requirements. All mortgages under these indentures are insured by the Federal Housing Administration. The programs generate income to cover costs of administration and debt service on the bonds. Excess funds may be transferred to other programs at the discretion of the Authority.

**The Program Fund** accounts for administrative and other miscellaneous type fees not accounted for elsewhere. This fund is used by the Authority to finance special projects or other expenses authorized by the Authority's Board of Commissioners. The Authority's Board of Commissioners designated by Resolution \$5,900,000 for special programs effective June 30, 1992. The program fund generates income to cover costs of administration and makes loans to organizations for low income housing.

#### **Basis of Accounting and Reporting**

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

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

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

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

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

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

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

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

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

#### **Restricted Assets and Liabilities Payable from Restricted Assets Under Revenue Bond Resolutions**

Generally, under the applicable bond indentures, the earnings and receipt of loan receivable payments related to investment and mortgage loan assets in the single family and multi-family finance program funds are required to be used for the related bonds payable debt service payments. Because these assets are generally restricted for this purpose, they have been reflected in the restricted portion of the accompanying statements. The liabilities that are to be paid from these restricted assets are also noted as liabilities payable from restricted assets. Net restricted assets for bond reserves are computed July 1 of each year by a percentage of the then outstanding bond principal in accordance with the bond indenture. Net restricted assets not restricted for the respective bond reserves of the single family and multi-family finance programs are reflected as restricted for debt service in the accompanying statements.

#### **Nonexchange Transactions**

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



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

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

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.

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

Bond discounts and premiums are amortized over the terms of the bonds using the bonds outstanding method which results in amortization being computed based on the percentage of bonds retired to the original amount of bonds issued. Costs incurred in connection with the bond issues are deferred and amortized on the straight-line method over the lives of the related issues. The deferred losses on refundings of debt include the call premiums and the unamortized premiums or discounts and issuance costs attributable to the bonds refunded and are amortized over the lives of the refunded issues or the new issues whichever is shorter, using the bonds outstanding method. Amortization of bond discounts and the deferred losses on refunding of debt is included in operating expenses as an addition to interest expense. Amortization of bond premium is included in operating revenues 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 for Existing Housing, New Construction/Substantial Rehabilitation, Contract Administration, Restructuring, Moderate Rehabilitation, Rental Voucher Program and Rental Certificate Program in certain areas of South Carolina. Under these programs, housing assistance payments are made to eligible individuals or to owners of rental housing on behalf of persons of limited income who meet the eligibility requirements.

HUD advances to the Authority sufficient funds to cover the current month's housing assistance payments and the Authority's costs of administration of the subsidy contracts. These administrative fees are recognized as operating revenue when earned in the general operating enterprise fund.

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

#### **Cash and Cash Equivalents**

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

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

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

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.

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

Although the cash management pool included some long-term investments, it operates as a demand deposit account, therefore, for credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 2.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less at the time of acquisition.

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

#### **Investments**

Investments are carried at fair value. Fair value is determined by quoted market prices. Purchases and sales are accounted for on the trade date. Investment income includes interest and dividend income, realized gains/losses on investments, and unrealized changes in fair value of the investments.

#### **Loans Receivable**

Loans receivable consist of mortgage loans which are carried at par. Discounts on loans are deferred and amortized using the sum-of-the-years digit method over the estimated life of ten years for single family loans and the actual life of the loan for multi-family loans and are included in interest income. All mortgage loans are insured with various mortgage insurance carriers at specified percentages of the loan amount varying from 25% to 100%. In addition, a special insurance reserve fund of 4% of the outstanding loan balance of all single family loans with less than 100% mortgage insurance has been provided in accordance with the related bond indenture.

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

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

Management is of the opinion that the mortgage insurance coverage and the 4% insurance reserve fund are adequate to cover any potential loan losses under the Single Family Finance Programs and the Multi-family Finance Programs should they occur. Loans determined to be uncollectible and unrecoverable from mortgage insurance carriers are charged off against the special insurance reserve fund. Loans made from the Housing Trust Fund, Program Fund and General Operating Fund are not insured. No losses have occurred to date and the Authority considers the mortgaged property as adequate collateral against any potential losses.

#### **Capital Assets**

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

Depreciation is computed using the straight-line method over estimated useful lives of ten years for furniture and equipment and five years for software.

#### **Mortgage Escrows**

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

#### **Compensated Absences**

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

#### **Rebatable Arbitrage**

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year and if they meet specified targets for expenses of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. A reserve fund is established to liquidate the liability when determined. The Authority incurred and paid \$17,200 arbitrage expense for the year ended June 30, 2002 which was recorded in operating expenses in the Proprietary Funds under other expenses.

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

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

#### **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 cash and appropriation authorization exist.

#### **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.

#### **Net Assets**

Net assets are classified and presented in three components:

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

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

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

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

#### **Use of Estimates**

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

### NOTE 2. DEPOSITS AND INVESTMENTS:

All deposits and investments of the Authority are under the control of the State Treasurer who, by law, has sole authority for investing state funds. Certain of the agency's deposits and investments are deposited and/or invested with or managed by financial institutions with the approval of the State Treasurer's Office.

The Authority classifies deposits and investments as either deposits held by State Treasurer, investments held by State Treasurer, other deposits and other investments. The following schedule reconciles deposits and investments within the footnotes to the financial statements amounts:

<u>Financial Statements</u>		<u>Footnotes</u>	
Current assets:		Deposits:	
Cash and cash equivalents:		Deposits held by State	
Unrestricted	\$27,548,461	Treasurer	\$ 27,890,504
Restricted	26,902,392	Other deposits	<u>16,049,695</u>
		Total deposits	<u>43,940,199</u>
Non-current assets:		Investments:	
Restricted:		Investment held by State	
Cash and cash		Treasurer	676,536
equivalents	139,963,057	Other investments	<u>154,595,627</u>
Investments	<u>4,798,452</u>	Total investments	<u>155,272,163</u>
Total	<u>\$ 199,212,362</u>	Total	<u>\$199,212,362</u>

### Deposits Held by State Treasurer

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

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

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

### **Other Deposits**

The Authority's other deposits are categorized to give an indication of the level of risk assumed by the Authority at year end. The credit risk categories are concerned with custodial credit risk, which is the risk that an entity will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. Category 1 includes deposits that are insured or collateralized with securities held by the Authority or by its agent in the Authority's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 includes uninsured and uncollateralized deposits. The Authority's other deposits are categorized as follows:

	<u>Bank Balance</u>	<u>Reported Amount</u>
Category 1	\$ 6,119,143	\$ 5,812,716
Category 3	<u>10,131,574</u>	<u>10,236,974</u>
Total other deposits	<u>\$ 16,250,717</u>	<u>\$16,049,690</u>

The highest balance during the year ended June 30, 2002 in Category 3 was approximately \$10,237,000.

### **Investments Held by State Treasurer**

The amounts classified as "Investments Held by State Treasurer" in the financial statements totaled \$676,536 and are comprised of investments held for the Authority and the State of South Carolina which are legally restricted and earnings thereon become revenue of the specific fund from which the investment was made.

Legally authorized investments vary by fund, but generally they include obligations of the United States and its agencies, obligations of the State of South Carolina and its political subdivisions, collateralized or federally insured certificates of deposit, certain rated obligations of corporations within the United States, and collateralized repurchase agreements. "Investments Held by State Treasurer" are stated at fair value. Purchases and sales are accounted for on the trade date. Interest earnings are allocated based on the percentage of the Department's accumulated daily income receivable to 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-ended based on the Department's percentage ownership in the pool.

All of the State Treasurer's investments are fully insured or registered or are investments for which the securities are held by the State or its agent in the State's name (Risk Category 1 as defined below). Information pertaining to the reported amounts, fair values, and credit risk of State Treasurer investments as of the balance sheet date is disclosed for each type investment in the Comprehensive Annual Financial Report of the State of South Carolina for the year ended June 30, 2002. However, information pertaining to the credit risk for investments of an individual agency, department, or institution is not available.

Investments Held by State Treasurer are stated at fair value. Purchases and sales are accounted for on the trade date. Interest earnings are allocated based on the percentage of the Department's accumulated daily income receivable to 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-ended based on the Department's percentage ownership in the pool.

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

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

All of the State Treasurer's investments are fully insured or registered or are investments for which the securities are held by the State or its agent in the State's name (Risk Category 1 as defined below). Information pertaining to the reported amounts, fair values, and credit risk of State Treasurer investments as of the balance sheet date is disclosed for each year ended June 30, 2002. However, information pertaining to the credit risk for investments of an individual agency, department, or institution is not available

The securities held by the State Treasurer for the Authority at June 30, 2002 follows:

U.S. Treasury Bond, at fair value	<u>\$ 676,536</u>
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This is the only type of security held by the State Treasurer during the year.

### **Other Investments**

The Authority has investments in repurchase agreements collateralized by U.S. Government securities and in U.S. Treasury obligations. These investments are generally of the same type as authorized for the State of South Carolina.

All of the "Other Investments" are stated at fair value. Purchases and sales are accounted for on the trade date. Unrealized gains/losses on investments have been recorded as investment income. Realized gains/losses on securities transactions are recorded on the accrual basis as investment income. Earnings are recorded as earned by the Authority. Investments with banks include legally authorized investments that vary by fund, but generally include 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 deposits, collateralized repurchase agreements and certain obligations of United States corporations

The Authority's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Authority's name. All investments are in Category 1.

A summary of these investments, which are, reported at fair value at June 30, 2002 follows:

Repurchase agreements, collateralized by	
by U.S. Government securities	\$150,473,712
U.S. Government obligations	231,619
U.S. Government Agency obligations	<u>3,890,296</u>
Totals	<u>\$154,595,627</u>

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

**Restricted Deposits and Investments**

Under provisions of applicable debt indentures, the Authority is required to restrict sufficient assets with an independent trustee (Bank of New York) in the single family and multi-family program funds to meet reserve requirements in order to pay the debt service on bonds. The required and actual reserve amounts for each program at June 30, 2002 are as follows:

	Reserve Requirements	Actual Funding	Over (Short)
Single Family Mortgage Revenue Reserve Funds - 1998	\$ 3,209,250	\$ 3,209,250	\$ -
Home Ownership Reserve Funds Bond Reserve	427,650	648,700	221,050
Special Insurance Reserve H01987A, H01988A, H01988C, H01988C2 and H01989A, H01990AB, H01990C, H01991A, H01991B, H01994A Total Home Ownership	88,547 <u>516,197</u>	1,199,241 <u>1,847,941</u>	1,110,694 <u>1,331,744</u>
Mortgage Revenue Bond Reserve Funds	7,299,800	8,338,574	1,038,774
Multi-Family 1992A & B Mortgage Reserve Funds	<u>231,619</u>	<u>231,619</u>	
Totals	<u>\$ 11,256,866</u>	<u>\$ 13,627,384</u>	<u>\$ 2,370,518</u>



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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

**NOTE 3. LOANS RECEIVABLE:**

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

**Governmental Funds:**

Housing Trust Fund notes maturing on various dates 2012 – 2032 plus interest ranging from 1% - 5% per payable in monthly installments of principal and interest, as provided in the notes	\$ 7,288,346
Total governmental funds	<u>\$ 7,288,346.00</u>

**Proprietary Funds**

General Operating Fund notes maturing in various dates from 2002-2032 plus interest ranging from 0% - 8% per annum; payable in installments of principal and interest as provided in the notes	14,431,781
Single Family Finance Programs notes maturing on dates from 2002-2032 plus interest ranging from 4% - 12.25% per annum; payable in monthly installments of principal and interest, net of unamortized discounts of \$5,477	523,056,212
Multi-family Finance Programs notes maturing on various dates from 2022 – 2025 plus interest at 12.00% per annum; payable in monthly installments of principal and interest	21,342,093
Program Fund notes maturing on various dates from 2002 2011 plus interest ranging from 0% - 8% per annum; payable in installments of principal and interest, as provided in the notes	<u>8,822,648</u>
Total proprietary funds	<u>\$ 567,652,734</u>

Discounts earned and included in interest and other charges on loans amounted to \$8,668 for the Single Family Finance Programs.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

**NOTE 4. CAPITAL ASSETS:**

Capital asset activity for the year ended June 30, 2002 was as follows:

	Beginning Balance as Restated June 30, 2001	Increases	Decreases	Ending Balance June 30, 2002
Equipment and furniture	\$ 321,083	\$ 6,954	\$ 19,364	\$ 308,673
Accumulated depreciation	189,744	32,057	17,658	204,143
Capital assets, net of accumulated depreciation	<u>\$ 131,339</u>	<u>\$ (25,103)</u>	<u>\$ 1,706</u>	<u>\$ 104,530</u>

**NOTE 5. CHANGES IN LONG-TERM LIABILITIES:**

Long-term liabilities activity for the year ended June 30, 2002 were as follows:

	Beginning Balances, June 30, 2001	Additions	Reductions	Ending Balances, June 30, 2002	Due w ithin One year
Bonds payable	\$ 505,505,944	\$ 63,216,413	\$ 42,931,834	\$ 525,790,523	\$ 6,770,000
Accrued compensated absences	523,352	365,125	324,664	563,813	280,000
Totals	<u>\$ 506,029,296</u>	<u>\$ 63,216,413</u>	<u>\$ 43,256,498</u>	<u>\$ 526,354,336</u>	<u>\$ 7,050,000</u>

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

**NOTE 6. BONDS PAYABLE:**

At June 30, 2002, bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refunding of debt, consisted of the following

	<u>Date Issued</u>	<u>Issue Amount</u>	<u>Outstanding Balance</u>
Single Family Mortgage Revenue Bonds 1998 (4.95% to 5.275%) due 2018-2036	9/11/98	\$ 106,975,000	\$ 106,975,000
Plus, unamortized premium			<u>1,270,556</u>
			<u>108,245,556</u>
1994A(5.45% to 6.375% due 2002-2016	5/01/94	25,000,000	12,630,000
Less, unamortized discounts			<u>(93,447)</u>
			<u>12,536,553</u>
Mortgage Revenue Bonds			
1994A(5.375% to 6.75%) due 2002-2026	10/20/94	30,000,000	15,990,000
1995A(5.45% to 6.70%) due 2002-2027	3/1/95	25,000,000	15,840,000
1996A(5.00% to 6.35%) due 2002-2028	5/1/96	25,000,000	16,905,000
1997A(4.65% to -5.9%) due 2002-2029	6/1/97	30,000,000	25,990,000
1999A(3.90% to 5.40%) due 2002-203	12/23/98	37,700,000	35,260,000
1999B (5.10% to 8.30%) due 2002-2030	11/1/99	139,910,000	125,005,000
2000A (5.40% to 6.40%) due 2003-2032	6/1/00	121,435,000	93,375,000
2001A (3.75% to 5.50%) due 204-2033	8/1/01	63,455,000	<u>63,455,000</u>
			\$391,820,000
Less: Unamortized discounts			(663,569)
Unamortized deferred losses on refundings on debt			<u>(2,994,622)</u>
			<u>388,161,809</u>
Multi-family Residential Revenue Bonds			
1992A (3.50% to 6.875%) due 2002-2024	5/21/92	19,625,000	17,035,000
Less, unamortized discounts			<u>(188,395)</u>
			<u>16,846,605</u>
Total bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			<u>\$ 525,790,523</u>

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

Amounts including interest required to complete payment of the bond obligation as of June 30, 2002 are as follows:

Year ending:	Principal	Interest	Totals
2003	\$ 6,770,000	\$ 30,172,270	\$ 36,942,270
2004	9,000,000	29,776,891	38,776,891
2005	10,040,000	29,289,764	39,329,764
2006	10,535,000	28,757,329	39,292,329
2007	11,010,000	28,190,645	39,200,645
2008-2012	65,745,000	130,015,125	195,760,125
2013-2017	87,130,000	108,768,899	195,898,899
2018-2022	99,775,000	81,718,963	181,493,963
2023-2027	101,540,000	52,393,026	153,933,026
2028-2032	93,245,000	23,095,232	116,340,232
2033-2037	33,670,000	3,273,750	36,943,750
Total	<u>\$ 528,460,000</u>	<u>\$ 545,451,894</u>	<u>\$ 1,073,911,894</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 Programs bonds the Authority redeemed prior to their maturity during the fiscal year ended June 30, 2002:

### Home-ownership Mortgage Revenue

Series 1991 A	\$ 11,005,000
Series 1994 A	1,075,000
	<u>12,080,000</u>

### Mortgage Revenue Bonds

Series 1994 A1 and A2	3,210,000
Series 1995 A	1,755,000
Series 1996 A	2,070,000
Series 1997 A	1,725,000
Series 1999 A	2,280,000
Series 1999 B	10,620,000
Series 2000 A	6,060,000
	<u>27,720,000</u>

Totals	<u>\$ 39,800,000</u>
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Single Family Finance Programs bonds, redeemed at par, resulted in unamortized bond discounts of \$87,033 and bond issuance costs of \$201,581 being written off and reflected as a loss on early extinguishment of debt for the year ended June 30, 2002.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

Amortization of bond discounts for the year ended June 30, 2002 that were included in bond interest expense in the proprietary fund follow:

Single Family Home-ownership Mortgage Revenue	\$ 11,795
Single Family Mortgage Revenue	43,981
Multi-family Residential Revenue	<u>14,302</u>
	<u>\$ 70,078</u>

Bond premium amortized for the year ended June 30, 2002 and attributable to the Single Family Finance Programs Fund bonds totaled \$38,511 and was reported as a single item revenue amount in the proprietary fund.

Amortization of deferred losses on refundings of debt of \$204,265 for the year ended June 30, 2002 and attributable to the Single Family Finance Programs Fund bonds was included in bond interest expense in the proprietary fund.

**NOTE 7. LEASES:**

At June 30, 2002 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 leases of the Authority's office space expire in July, 2004 and September, 2004 and are payable monthly. The Authority is responsible for the pro rata share of increases in the building's operating costs over the preceding rental year limited to no more than 5% increase per year.

Office equipment leases expire in various fiscal years from 2002 through 2006.

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

Year ended June 30,	
2003	\$ 497,499
2004	497,499
2005	143,061
2006	<u>5,222</u>
	<u>\$1,143,281</u>

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

The Authority incurred rental expense of approximately \$515,000 under the aforementioned leases for the fiscal year ended June 30, 2002.

The above information given is for existing leases only and is not a forecast of future rental expense. In the normal course of business, operating leases are generally renewed or replaced with other leases.

In addition to the above leases, the Authority has entered into four noncancellable copier leases on a "pay per copy" plan. The leases expire in fiscal years ending June 30, 2003 to 2006. Approximately \$15,500 was expended under these leases during the fiscal year ended June 30, 2002.

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

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

#### **NOTE 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 \$.50 of every \$1.30 collected to the Authority for the Housing Trust Fund.
- Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking and investment functions from the State Treasurer; and legal services from the Attorney General.
- Services provided at no cost from various divisions of the State Budget and Control Board include retirement plan administration, grant services, insurance plan administration, personnel management, review, and approval of certain budget amendments, procurement services, and other centralized functions.
- Financial transactions include payments to divisions of the State Budget and Control Board for vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Payments were also made for the workers' compensation insurance coverage and unemployment compensation. The amounts applicable to 2001 expenditures were not readily available.
- The Authority was required to remit \$176,681 to the General Fund of the State pursuant to Proviso 72.111 of the 2002 Appropriation Act.

#### **NOTE 9. FUND TRANSFERS:**

Fund transfers to and from other funds, which are allowable and made in accordance with the terms of the respective bond indentures, during the year ended June 30, 2002 follow:

- \$2,904,000 from the Single Family Finance Program to the General Operating fund to pay for operating expenses.
- \$376,003 from the Program Fund to the General Operating Fund for principal and interest on home loans.
- \$105,999 from the General Operating Fund to the Program Fund to pay for administrative fees.
- \$788,447 from the Multi-family Finance Program to the Program Fund for the purchase of new loans.
- Loans with unpaid balances of \$10,499,156 that were made under the Home Program were transferred from the Program Fund to the General Operating Fund.

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

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002**

#### **NOTE 10. RISK MANAGEMENT:**

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

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); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

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

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

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

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

The Authority obtains coverage through a commercial insurer for employee fidelity bond insurance for certain of its supervisory/management employees for losses arising from theft or misappropriation.

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

### NOTE 11. CONDUIT DEBT:

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

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
<b>FISCAL YEAR 1985 (84/85)</b>			
10/84	Conduit Mortgage Loan Notes (Cypress General Partnership)	\$1,075,000	\$ 285,372
03/85	Conduit Mortgage Loan Notes (Canal Court Project)	550,000	300,537
06/85	Conduit Mortgage Loan Notes (Breckenridge Apt. Project)	3,000,000	1,011,948
12/85	Multi-family Guaranteed Mortgage Revenue Bonds, 1985B (CTS Parklane)	12,050,000	12,050,000
12/85	Conduit Mortgage Loan Note (Crossroad Apts. Project)	2,150,000	1,403,656
<b>FISCAL YEAR 1987 (86/87)</b>			
07/88	Multi-family Housing Revenue Bonds (Paces Landing Series 1988)	8,750,000	8,750,000
12/88	Multi-family Housing Revenue Refunding Bonds (Oakridge Project)) 276	9,150,000	6,900,000
<b>FISCAL YEAR 1989 (88/89)</b>			
12/88	Multi-family Housing Revenue Refunding Bonds (Waverly Place)	8,400,000	4,900,000
07/89	Variable Housing Revenue Refunding Bonds (Patriot Place)	2,200,000	2,200,000
<b>FISCAL YEAR 1991 (90/91)</b>			
07/90	Multi-family Housing Revenue Refunding Bonds (Richland Oxford)	11,130,000	11,130,000
09/90	Multi-family Housing Revenue Bonds 1990 Series A (Westbridge)	2,850,000	2,615,000
<b>FISCAL YEAR 1992 (91/92)</b>			
10/91	Multi-family Mortgage Revenue Bonds (Plum Chase)	7,000,000	7,000,000
<b>FISCAL YEAR 1993 (92/93)</b>			
06/93	Multi-family Housing Revenue Refunding Bonds (Westbury Place)	5,510,000	4,865,000
06/93	Multi-family Housing Revenue Refunding Bonds (Windsor Shores)	5,085,000	3,615,000
06/94	Multi-family Housing Revenue Refunding Bonds (North Bluff)	3,940,000	2,860,000
<b>FISCAL YEAR 1994 (93/94)</b>			
06/94	Multi-family Housing Mortgage Revenue Bonds (United Dominion – Forestbrook Apts. Project)	5,000,000	5,000,000
<b>FISCAL YEAR 1995 (94/95)</b>			
06/95	Multi-family Housing Mortgage Revenue Bonds (United Dominion – Hunting Ridge Apts. Project)	3,265,000	3,265,000
06/95	Rental Housing Revenue Refunding Bonds (Bryton Point Apts. Project)	6,945,000	6,345,000
<b>FISCAL YEAR 1996 (95/96)</b>			
11/95	Multi-family Housing Revenue Refunding Bonds (Runaway Bay)	10,300,000	9,245,000
11/95	Mortgage Revenue Refunding Bonds (Heritage)	4,525,000	4,160,000
<b>FISCAL YEAR 1998 (97/98)</b>			
08/97	Multi-family Housing Revenue Refunding Bonds (Oakfield Apts.)	3,250,000	2,844,000
04/98	Multi-family Housing Revenue Bonds (Three Rivers and Edenwood Apts.)	9,535,000	9,125,000



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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

<u>Issue Date</u>	<u>Bond/Note Title</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding</u>
	<b>FISCAL YEAR 1999 (98/99)</b>		
05/99	Multi-family Rental Housing Revenue Bonds (Ashley Apts.)	4,300,000	4,300,000
	<b>FISCAL YEAR 2000 (99-00)</b>		
07/99	Multi-family Housing Revenue Bonds (CTS Rock Hill Project)	9,145,000	9,145,000
	<b>FISCAL YEAR 2001 (00/01)</b>		
08/00	Multi-family Revenue Refunding Bonds (Paces Watch Apts. Project)	10,600,000	10,600,000
10/00	Multi-family Rental Housing Revenue Bonds (City Heights Apts. Project)	6,750,000	6,750,000
10/00	Multi-family Rental Housing Revenue Bonds (Spartanburg Terrace Apts.)	4,750,000	4,750,000
10/00	Multi-family Housing Revenue Bonds (Piedmont Manor Apts.)	6,250,000	6,250,000
10/00	Multi-family Rental Housing Revenue Bonds (Bayside Apts.)	9,500,000	9,500,000
12/00	Multi-family Rental Housing Revenue Bonds (Bent Tree Apts.)	11,130,000	11,130,000
02/01	Multi-family Rental Housing Revenue Bonds (Ashton & Stoney Creek Apts.)	16,600,000	16,300,000
06/01	Multi-family Housing Revenue Bonds (Fairway Apts. Project)	7,735,000	7,735,000
06/01	Multi-family Housing Revenue Refunding Bonds East Ridge Project)	8,700,000	8,700,000
06/01	Multi-family Rental Housing Revenue Refunding Bonds (Martin's Creek Project)	7,300,000	7,300,000
06/01	Multi-family Rental Housing Revenue Refunding Bonds (Bay Club Project)	6,400,000	6,400,000
	<b>FISCAL YEAR 2002 (01/02)</b>		
08/01	Multi-family Housing revenue Refunding Bonds (North Slope Apartments/Greenville Oxford Project)	4,955,000	4,955,000
08/01	Multi-family Housing Revenue Refunding Bonds (Springhouse Apts./Charleston Oxford Project)	10,180,000	10,180,000
08/01	Multi-family Housing Revenue Refunding Bonds (Hunt Club Apts./Spartanburg Oxford Project)	9,415,000	9,415,000
12/01	Multi-family Rental Housing Revenue Bonds (Arrington Place Apartments)	2,680,000	2,680,000
12/01	Multi-family Rental Housing Revenue Bonds (Cedarwood Apartments-Columbia, SC)	8,750,000	8,750,000
12/01	Multi-family Rental Housing Revenue Bonds (Belton Woods Apartments)	<u>5,795,000</u>	<u>5,795,000</u>
	<b>TOTAL</b>	<u>\$276,595,000</u>	<u>\$260,505,513</u>

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

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2002**

#### **NOTE 12. PENSION PLAN:**

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

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

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

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2001 the employer contribution rate became 10.40 percent, which included a 2.85 percent surcharge to fund retiree health and dental insurance coverage. The Authority's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2002, 2001, and 2000 were approximately \$342,000, \$307,000, and \$263,000 respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the Authority paid employer group life insurance contributions of approximately \$6,800 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**

**JUNE 30, 2002**

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 therefor 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.

#### **NOTE 13. POST EMPLOYMENT AND OTHER EMPLOYEE BENEFITS:**

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Authority are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date.

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

These benefits are provided through annual appropriations by the General Assembly to the Authority for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Authority for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 22,000 State retirees met these eligibility requirements as of June 30, 2001.

The Authority recorded employer contributions expenditures within the applicable operating expense categories for these insurance benefits for active employees of approximately \$342,000 for the year ended June 30, 2002. As discussed in Note 12, the Authority paid approximately \$128,000 applicable to the 2.85 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

#### **NOTE 14. DEFERRED COMPENSATION PLANS:**

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

The State has authorized deferred compensation matching contributions which are funded from various funding sources based on the same percentages used for employees' salaries. The Authority did not make any contributions for the fiscal year ended June 30, 2002.

### NOTE 15. RETIREMENT INCENTIVE:

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

The Authority did not incur any expenses under the TERI Programs for the year ended June 30, 2002.

### NOTE 16. SUBSEQUENT EVENTS:

In October 2002, the Authority will issue Series 2002 A and B Mortgage Revenue Bonds and Notes totaling \$73,000,000 with maturities in fiscal years 2004 – 2035 and interest rates of 1.57% - 4.95% per annum in its Single Family Finance Programs proprietary fund.

The Authority is required by Proviso 72.97 of the 2003 Appropriations Act to transfer \$1,617,784 from the Program Fund of the proprietary fund to the General Fund of the State of South Carolina.

### NOTE 17. COMMITMENTS:

The Authority has financial award commitments outstanding totaling approximately \$4,718,000 as of June 30, 2002 under the Housing Trust fund program.

### NOTE 18. PRIOR PERIOD ADJUSTMENTS:

All State agencies and institutions were required to adopt a capitalization limit of \$5,000 for moveable personal property as of July 1, 2002. As a result of the change in asset capitalization policy, the Authority removed capitalized assets on hand at July 1, 2001, which did not meet the new capitalization levels. The Authority also made corrections of errors involving the application of accounting principles. The Authority did not record documentary stamp taxes collected in June, 2001 by local governments in its governmental fund and administrative fees for June, 2001 from the administration of one of its federal programs in its General Operating Fund in the proprietary funds. The Authority has restated the various account balances as follows for the above stated reasons.

	Governmental Fund	Proprietary Fund General Operating
Net assets, July 1, 2001, as previously reported	\$ 19,502,893	\$ 2,754,164
Correction of errors:		
Record documentary stamp taxes due from other State agency	640,127	
Record federal reimbursement due for administrative costs		354,366
Restatement adjustments:		
Change in capitalization levels, net of accumulated depreciation of \$293,206		(717,858)
Net assets, July 1, 2001, as restated	<u>\$ 20,143,020</u>	<u>\$ 2,390,672</u>

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

**NOTE 19. SEGMENT FINANCIAL INFORMATION:**

Segment financial information as required by the bond trustees for each indenture of the Authority's Single Family Finance Programs as of and for the year ended June 30, 2002 is presented on the following pages.

**STATEMENT OF NET ASSETS - JUNE 30, 2002**

	Single Family	Home- ow nership	Mortgage Revenue	Totals
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 7,012,174	\$ 942,119	\$ 17,337,806	\$ 25,292,099
Total current assets	7,012,174	942,119	17,337,806	25,292,099
Non-current assets:				
Restricted assets:				
Cash and cash equivalents	61,630,287	13,231,517	64,470,003	139,331,807
Investments		2,776,847	1,113,449	3,890,296
Loan receivable, net of unamortized discounts	158,799,344	25,992,981	338,263,887	523,056,212
Accrued interest receivable:				
Deposits and investments	92,557	66,542	86,225	245,324
Loans	1,147,095	249,849	2,680,547	4,077,491
Unamortized bond issuance costs	1,004,452	19,905	3,144,013	4,168,370
Total non-current assets	222,673,735	42,337,641	409,758,124	674,769,500
<b>TOTAL ASSETS</b>	229,685,909	43,279,760	427,095,930	700,061,599
<b>LIABILITIES</b>				
Current liabilities:				
Liabilities payable from restricted current assets:				
Bonds payable		535,000	5,870,000	6,405,000
Accrued Interest payable on bonds	2,794,875	393,167	11,348,912	14,536,954
Mortgage escrow s	4,157,534			4,157,534
Other	59,765	13,952	118,894	192,611
Total current liabilities	7,012,174	942,119	17,337,806	25,292,099
Non-current liabilities:				
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	108,245,556	12,001,553	382,291,809	502,538,918
Total non-current liabilities	108,245,556	12,001,553	382,291,809	502,538,918
<b>TOTAL LIABILITIES</b>	115,257,730	12,943,672	399,629,615	527,831,017
<b>NET ASSETS</b>				
Restricted for:				
Debt service	111,218,929	29,169,288	19,706,415	160,094,632
Bond reserves	3,209,250	1,166,800	7,759,900	12,135,950
<b>TOTAL NET ASSETS</b>	\$ 114,428,179	\$ 30,336,088	\$ 27,466,315	\$ 172,230,582

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - YEAR ENDED JUNE 30, 2002**

	Single Family	Home- ow nership	Mortgage Revenue	Totals
Operating revenues:				
Pledged revenues:				
Interest on loans	\$ 10,299,688	\$ 2,438,951	\$ 22,154,736	\$ 34,893,375
Income on deposit	1,258,984	330,194	4,516,270	6,105,448
Other revenues:				
Bond premium amortization	38,511			38,511
<b>TOTAL OPERATING REVENUES</b>	<b>11,597,183</b>	<b>2,769,145</b>	<b>26,671,006</b>	<b>41,037,334</b>
Operating expenses:				
Bond interest	5,589,750	1,017,092	23,139,602	29,746,444
Program	423,288	55,825	943,727	1,422,840
Bond issuance cost amortization	40,954	2,513	202,460	245,927
Other expenses	5,500	3,230	172,059	180,789
<b>TOTAL OPERATING EXPENSES</b>	<b>6,059,492</b>	<b>1,078,660</b>	<b>24,457,848</b>	<b>31,596,000</b>
<b>OPERATING INCOME</b>	<b>5,537,691</b>	<b>1,690,485</b>	<b>2,213,158</b>	<b>9,441,334</b>
Transfers:				
Transfers among programs	(10,474)	(834,863)	845,337	
Transfers to other programs - net	(2,904,000)			(2,904,000)
<b>TOTAL TRANSFERS</b>	<b>(2,914,474)</b>	<b>(834,863)</b>	<b>845,337</b>	<b>(2,904,000)</b>
<b>INCOME (LOSS) BEFORE EXTRAORDINARY ITEM</b>	<b>2,623,217</b>	<b>855,622</b>	<b>3,058,495</b>	<b>6,537,334</b>
<b>EXTRAORDINARY ITEM:</b>				
Loss on early extinguishment of debt		(10,471)	(278,143)	(288,614)
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>2,623,217</b>	<b>845,151</b>	<b>2,780,352</b>	<b>6,248,720</b>
<b>NET ASSETS, AT BEGINNING OF YEAR</b>	<b>111,804,962</b>	<b>29,490,937</b>	<b>24,685,963</b>	<b>165,981,862</b>
<b>NET ASSETS, AT END OF YEAR</b>	<b>\$ 114,428,179</b>	<b>\$ 30,336,088</b>	<b>\$ 27,466,315</b>	<b>\$ 172,230,582</b>

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

**STATEMENTS OF CASH FLOWS - YEAR ENDED JUNE 30, 2002**

	<u>Single Family</u>	<u>Home- ow nership</u>	<u>Mortgage Revenue</u>	<u>Totals</u>
Cash flow s from investing activities:				
Receipt of loan payments	\$ 30,416,574	\$ 8,467,740	\$ 55,450,337	\$ 94,334,651
Purchase/origination of new loans	(23,561,318)		(61,721,394)	(85,282,712)
Payments to vendors	(220,023)	(33,995)	(706,246)	(960,264)
<b>NET CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u>6,635,233</u>	<u>8,433,745</u>	<u>(6,977,303)</u>	<u>8,091,675</u>
Cash flow s from non-capital financing activities:				
Transfer to other programs	(2,904,000)			(2,904,000)
Transfers among programs	(10,474)	(834,863)	845,337	
Loans transferred among programs		7,977,061	(7,977,061)	
Proceeds from sales of bonds			63,455,000	63,455,000
Principal payments on bonds payable		(13,115,000)	(29,860,000)	(42,975,000)
Interest payments on bonds payable	(5,589,750)	(1,340,288)	(22,257,879)	(29,187,917)
Payment of bond issuance costs			(664,491)	(664,491)
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES</b>	<u>(8,504,224)</u>	<u>(7,313,090)</u>	<u>3,540,906</u>	<u>(12,276,408)</u>
Cash flow s from investing activities:				
Proceeds from sale of investments			16,386,938	16,386,938
Income on deposits and investments	1,367,021	424,433	6,137,379	7,928,833
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<u>1,367,021</u>	<u>424,433</u>	<u>22,524,317</u>	<u>24,315,771</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(501,970)</u>	<u>1,545,088</u>	<u>19,087,920</u>	<u>20,131,038</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>69,144,431</u>	<u>12,628,548</u>	<u>62,719,889</u>	<u>144,492,868</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 68,642,461</u>	<u>\$ 14,173,636</u>	<u>\$ 81,807,809</u>	<u>\$ 164,623,906</u>

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

**STATEMENTS OF CASH FLOWS – YEAR ENDED JUNE 30, 2002**

	<u>Single Family</u>	<u>Home- ow nership</u>	<u>Mortgage Revenue</u>	<u>Totals</u>
<b>Reconciliation of net operating income (loss) to net cash flows provided by (used for) operating activities</b>				
Net operating income	\$ 5,537,691	\$ 1,690,485	\$ 2,213,158	\$ 9,441,334
Adjustments to reconcile net operating income to net cash flow s provided by (used for) operating activities:				
Bond premium paid on early redemption			(160,400)	(160,400)
Bond premium amortization	(38,511)			(38,511)
Bond issuance cost amortization	40,954	2,513	202,460	245,927
Bond interest expense reclassified to non-capital financing activities	5,589,750	1,017,092	23,139,602	29,746,444
Income in deposits and investments reclassified to investing activities	(1,258,984)	(330,194)	(4,516,270)	(6,105,448)
Mortgage loan discount amortization		(7,583)	(1,085)	(8,668)
Mortgage loan principal adjustment			1,292	1,292
Receipt of loan principal payments	19,297,469	5,994,937	34,149,821	59,442,227
Purchase/origination of new loans	(23,561,318)		(61,721,394)	(85,282,712)
Increase (decrease) in accrued interest receivable - loans	(49,388)	74,154	(306,979)	(282,213)
Increase (decrease) in mortgage escrow s	1,077,092			1,077,092
Increase (decrease) in other liabilities	478	(7,659)	22,492	15,311
Total adjustments	<u>1,097,542</u>	<u>6,743,260</u>	<u>(9,190,461)</u>	<u>(1,349,659)</u>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u>\$ 6,635,233</u>	<u>\$ 8,433,745</u>	<u>\$ (6,977,303)</u>	<u>\$ 8,091,675</u>



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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Total Expenditures</u>	<u>Expenditures to Subrecipients</u>
Department of Housing and Urban Development			
Section 8 New Construction & Substantial Rehabilitation	14.182	\$ 7,945,323	
Section 8 Housing Assistance Payments Program - Special Allocations	14.195	65,931,814	
Multifamily Assisted Housing Reform and Affordability Act	14.197	184,750	
Home Investment Partnership Program	14.239	21,121,904	874,818
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	989,545	9,547
Section 8 Housing Choice Vouchers	14.871	<u>11,540,732</u>	<u>582,210</u>
Total		<u>\$107,714,068</u>	<u>\$ 1,466,575</u>

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.



# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of South Carolina State Housing Finance and Development Authority as of and for the year ended June 30, 2002, and have issued our report thereon dated October 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

October 4, 2002

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# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

### Compliance

We have audited the compliance of South Carolina State Housing Finance And Development Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2002. 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 its major federal program 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 provided a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 02-1.

### Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



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

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

*Logan E. Laban, PA*

October 4, 2002

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

**YEAR ENDED JUNE 30, 2002**

**SUMMARY OF AUDITOR'S RESULTS:**

**FINANCIAL STATEMENTS:**

1. An unqualified opinion dated October 4, 2002 on the financial statements of the Authority for the year ended June 30, 2002 was issued.
2. No reportable conditions related to internal control over financial reporting were noted.
3. No instances of noncompliance which were material to the financial statements were noted

**FEDERAL AWARDS:**

4. No reportable conditions relating to internal control over compliance resulting from the audit of the major federal award programs are reported.
- 5.. An unqualified opinion on compliance for the major program dated October 4, 2002 was issued.
6. There is one finding reported on this schedule required to be reported under Section .510(a) of OMB Circular A-133.
7. The major programs of the Authority are as follows:

<u>CFDA #</u>	<u>Program Title</u>
14.239	HUD/Home Investment Partnerships Program
14.195	Section 8 Housing Assistance Payments Program - Special Allocations

8. The dollar threshold used to distinguish between Type A and Type B programs was \$3,231,422.
9. The Authority was determined not to be a low-risk auditee.

**FINANCIAL STATEMENT FINDINGS:**

None.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:**

02-1 DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-HUD/HOME INVESTMENT  
CONTRACT ADMINISTRATION – CFDA # 14.195

Condition: The Authority was deficient in obtaining documentation to support utility allowances adjustments and having a property owner properly respond to a management review.

Criteria: Federal regulations and the contract between the Authority and HUD require the Authority to obtain documentation to support utility allowances adjustments, properly calculate re-certification rent amounts, and obtain responsive replies to management reviews as provided for in the Sections 886.112 and 886.126 of the Federal Regulations.

Effect: The above mentioned deficiencies result in performance violations of federal regulations and the contract between the Authority and HUD.

Cause: It appears that the personnel responsible for these functions are not following the required guidelines and regulations.

Recommendation: Ensure that Authority employees responsible for the various administrative duties for its federal programs are knowledgeable of the grant and program requirements and of A-133 requirements and their work product is reviewed and approved by supervisory personnel.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDING  
JUNE 30, 2002**

01-2 DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-HUD/HOME INVESTMENT  
PARTNERSHIP PROGRAM-CFDA #14.239

Condition: The Authority did not have a system in place under this grant to ensure adequate monitoring of subrecipients and to ensure that they had a single audit if the subrecipient expended more than \$300,000 in federal awards in a year.

Recommendation: Ensure that all Authority employees responsible for the various duties for its federal programs are knowledgeable of the specific grant and program requirements and of A-133 requirements for the monitoring subrecipients and that the Authority obtains and reviews a single audit report for all subrecipients that spend more than \$300,000 in a year and follows up on findings reported in those single audit reports.

Current Status: The recommendation was put in place October, 2001.

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

**STATUS OF PRIOR AUDIT FINDING  
JUNE 30, 2002**

During the current engagement, we reviewed the status of corrective action taken on the finding relating to the financial statements reported in the Schedule of Findings and Questioned Costs section of our report for the fiscal year ended June 30, 2001 dated September 26, 2001. We determined that the Authority has taken adequate corrective action for the finding that was included in the prior report.



# **CORRECTIVE ACTION PLAN**

Appendix A



## South Carolina State Housing Finance and Development Authority

919 Bluff Road, Columbia, South Carolina 29201

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www.sha.state.sc.us

Dan J. Rawls  
Chairman

Donald R. Hinson  
Executive Director

November 7, 2002

### Corrective Action Plan

South Carolina State Housing Finance and Development Authority respectfully submits the following corrective action for the year ended June 30, 2002.

Name and address of independent public accounting firm: Rogers & Laban, PA, 1529 Hampton Street, Suite 200, Columbia, SC 29201.

The findings from the June 30, 2002 schedule of findings and questioned costs are discussed below. The finding is numbered consistently with the number assigned in the schedule.

### FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

#### 02-1 DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-HUD/HOME INVESTMENT CONTRACT ADMINISTRATION – CFDA #14.195

**Recommendation:** Ensure that Authority employees responsible for the various administrative duties for its federal programs are knowledgeable of the grant and program requirements and their work product is reviewed and approved by supervisory personnel.

**Action Taken:** The Columbia Office of Housing and Urban Development is currently meeting to develop an implementation strategy. As noted in our Annual Compliance Review we were provided with a copy of the letter dated October 8, 2002, used to notify owners of this requirement. This letter is currently being revised by HUD to eliminate confusion related to this regulation. Enforcement of this regulation prior to clarification from HUD and notification to property owners is not appropriate, however we have added this requirement to our tracking sheet and are closely monitoring future requests for rent increases.

Managers have been instructed to insure that all deficiencies are addressed in Management Review Responses. A training program is already in effect to ensure that all employees stay abreast of the HUD regulations.

If there are any questions regarding this plan, please call Rosalia Moore at (803) 734-2095.