

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

COLUMBIA, SOUTH CAROLINA

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AUDITED FINANCIAL STATEMENTS

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YEAR ENDED JUNE 30, 2003

State of South Carolina



Office of the State Auditor

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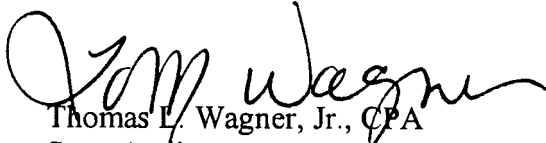
October 10, 2003

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

This report on the audit of the financial statements of the South Carolina State Housing Finance and Development Authority for the fiscal year ended June 30, 2003, was issued by DeLoach & Williamson, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY  
  
COLUMBIA, SOUTH CAROLINA

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AUDITED FINANCIAL STATEMENTS

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**TABLE OF CONTENTS**

Report of Independent Auditors .....	1
Management's Discussion and Analysis (Required Supplementary Information).....	3
 <b>Financial Statements</b>	
Authority-Wide Financial Statements:	
Statement of Net Assets .....	7
Statement of Activities.....	9
Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	10
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds .....	11
Statement of Net Assets-Proprietary Funds.....	12
Statement of Revenue, Expenditures and Changes in Net Assets - Proprietary Funds .....	14
Statement of Cash Flows-Proprietary Funds .....	16
Notes to Financial Statements.....	19
 Other Financial Information:	
Schedule of Expenditures of Federal Awards.....	61
Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	62
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	64
Schedule of Findings and Questioned Costs.....	66
Summary Schedule of Prior Audit Finding .....	67
Status of Prior Audit Finding.....	68

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**REPORT OF INDEPENDENT AUDITORS**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Carolina State Housing Finance and Development Authority and its blended component unit (the "Authority") as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in *Note 1* to the financial statements, the accompanying financial statements of the Authority are intended to present the financial position, results of operations, and the cash flows of only the portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information that are attributable to the transactions of the Authority, an agency of the State of South Carolina, and do not include any other agencies, institutions, divisions, instrumentalities or any other component units of the State of South Carolina. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2003 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, 2003, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the financial statements is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2003, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the result of our audit.

*Rebecca E. Williamson, C.C.P.*

September 19, 2003

# **South Carolina State Housing Finance and Development Authority**

## **Management's Discussion and Analysis**

As management of the South Carolina State Housing Finance and Development Authority, (the "Authority") we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2003.

### **Financial Highlights**

- Net assets of the Authority increased \$11,657,926 to \$223,949,425 in its proprietary funds.
- The governmental fund increased \$3,198,904 to \$23,998,110.
- HUD assistance increased \$8,807,256 to \$92,422,955. This increase is due to an increase in the Contract Administration Program.
- The Authority redeemed \$36,665,000 in bonds prior to their maturity and issued bonds in the amount of \$73,000,000.
- For this fiscal year ending June 30, 2003, the Authority purchased 885 new loans for \$59,127,837 in its enterprise fund and 2 new loans for a total of \$267,186 in the governmental fund. In addition to new loans, 1,345 loans in the amount of \$67,924,221 paid off early.
- Bonds Outstanding increased \$29,645,000 to \$558,105,000.

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

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

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

The remainder of this overview section explains the structure and contents of each of these statements. The prior year results referred to throughout this section are for comparison purposes only. 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, in which activities are accounted for in a manner similar to businesses operating in the private sector. Funding has primarily arisen through the issuances of bonds, the proceeds of which are used to make various types of loans to finance low and moderate-income housing. HUD contracts are accounted for in the proprietary fund since the Authority receives fees to administer various HUD programs. The net assets of these programs represent accumulated earnings since their inception and are generally for program purposes.

## Financial Analysis of the Authority as a Whole

**Net Assets.** The combined net assets of the Authority increased by \$14,856,830. The following table summarizes the financial position for the Authority as of and for the years ended June 30, 2003 and 2002.

	June 30,					
	Governmental Activities		Business-Type Activities		Totals	
	2003	2002	2003	2002	2003	2002
Total current assets	\$ 16,897,644	\$ 13,708,409	\$ 90,793,065	\$ 43,971,208	\$ 107,690,709	\$ 57,679,617
Capital assets	-	-	73,325	104,530	73,325	104,530
Non-current assets	7,105,626	7,092,596	713,041,029	721,144,637	720,146,655	728,237,233
Total assets	<u>\$ 24,003,270</u>	<u>\$ 20,801,005</u>	<u>\$ 803,907,419</u>	<u>\$ 765,220,375</u>	<u>\$ 827,910,689</u>	<u>\$ 786,021,380</u>
Total current liabilities	\$ 5,160	\$ 1,799	\$ 76,341,499	\$ 33,624,540	\$ 76,346,659	\$ 33,626,339
Total long-term liabilities	-	-	503,616,495	519,304,336	503,616,495	519,304,336
Total liabilities	<u>\$ 5,160</u>	<u>\$ 1,799</u>	<u>\$ 579,957,994</u>	<u>\$ 552,928,876</u>	<u>\$ 579,963,154</u>	<u>\$ 552,930,675</u>
Fund equity in capital assets	\$ -	\$ -	\$ 73,325	\$ 104,530	\$ 73,325	\$ 104,530
Fund equity-restricted	23,998,110	20,799,206	222,927,387	212,100,076	246,925,497	232,899,282
Fund equity-unrestricted	-	-	948,713	86,893	948,713	86,893
Total net assets	<u>\$ 23,998,110</u>	<u>\$ 20,799,206</u>	<u>\$ 223,949,425</u>	<u>\$ 212,291,499</u>	<u>\$ 247,947,535</u>	<u>\$ 233,090,705</u>

Net assets of the Authority's governmental funds increased \$3,198,904 to \$23,998,110. 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 \$11,657,926 to \$223,949,425. The increase primarily resulted from the increase in early pay-off of loans by \$20,879,223 and the decrease in new loans by \$30,203,914. Long-term debt increased by \$15,687,841. The net increase in cash and investments is \$67,566,210.

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

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Revenue:						
Charges for services	\$ -	\$ -	\$ 45,564,074	\$ 44,237,766	\$ 45,564,074	\$ 44,237,766
Program Investment Income	299,326	386,307	5,764,701	6,398,376	6,064,027	6,784,683
Tax/Grant/Federal Revenue	<u>7,568,750</u>	<u>6,659,485</u>	<u>96,134,057</u>	<u>87,664,738</u>	<u>103,702,807</u>	<u>94,324,223</u>
Total revenue	7,868,076	7,045,792	147,462,832	138,300,880	155,330,908	145,346,672
Expenses	3,776,601	6,389,606	133,648,836	125,423,283	137,425,437	131,812,889
Transfer to General Fund of the State	892,571	-	1,617,784	176,681	2,510,355	176,681
Extraordinary Item:						
Loss on early extinguishment of debt	<u>-</u>	<u>-</u>	<u>538,286</u>	<u>288,614</u>	<u>538,286</u>	<u>288,614</u>
Increase in net assets	<u>\$ 3,198,904</u>	<u>\$ 656,186</u>	<u>\$ 11,657,926</u>	<u>\$ 12,412,302</u>	<u>\$ 14,856,830</u>	<u>\$ 13,068,488</u>

Revenues of the Authority's governmental activities were derived from a documentary stamp tax and investment income. All expenditures were grants. Revenues of the Authority's business-type activities were primarily from charges for services (\$45,564,074) and program investment (\$5,764,701). 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 revenue adequately covers all expenses of the Authority. Program revenue exceeded expenses by \$11,657,926. Net assets of the Authority increased from the previous year by \$14,856,830.



## **Debt Administration**

The Authority's total liabilities increased \$27,032,479 to \$579,963,154. Long-term debt decreased \$15,687,841 to \$503,616,495. The long-term debt consists of bonds payable at \$503,328,093 and accrued compensated absences in the amount of \$288,402.

## **Economic Factors**

The Authority's financial condition remains consistent in comparison with prior years. The increase in net assets is generally in the same range as previous years. In August 2003, the Authority issued Mortgage Revenue Bonds in the amount of \$50,000,000 and will refund bonds in the amount of \$6,740,000 in January 2004. The Authority will also transfer \$5,583,000 from its governmental fund to the General Fund of the State of South Carolina in fiscal year 2004.

## **Requests for Information**

This financial report is designed to provide a general overview of the South Carolina State Housing Finance and Development Authority finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the following:

South Carolina State Housing Finance and Development Authority  
Finance Division  
919 Bluff Road  
Columbia, South Carolina 29201

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2003

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Totals</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 15,210,515	\$ 12,653,406	\$ 27,863,921
Restricted assets:			
Cash and cash equivalents	-	74,442,405	74,442,405
Accounts receivable:			
Due from State Agency	1,465,936	-	1,465,936
Due from grantor	-	1,484,641	1,484,641
Other	-	1,428,091	1,428,091
Loans receivable	209,265	744,469	953,734
Accrued interest receivable:			
Loans	11,928	38,421	50,349
Deposits and investments	-	1,632	1,632
Total current assets	<u>16,897,644</u>	<u>90,793,065</u>	<u>107,690,709</u>
Non-current assets:			
Investments	-	664,020	664,020
Loans receivable, net of current portion and unamortized discounts	7,105,626	17,278,727	24,384,353
Restricted assets:			
Cash and cash equivalents	-	159,497,466	159,497,466
Accounts receivable	-	309,739	309,739
Investments	-	4,310,760	4,310,760
Loans receivable, net of unamortized discounts	-	521,651,209	521,651,209
Accrued interest receivable:			
Deposits and investments	-	421,304	421,304
Loans	-	4,409,737	4,409,737
Unamortized bond issuance costs	-	4,430,063	4,430,063
Capital assets, net of accumulated depreciation	-	73,325	73,325
Other assets	-	68,004	68,004
Total noncurrent assets	<u>7,105,626</u>	<u>713,114,354</u>	<u>720,219,980</u>
Total assets	<u>24,003,270</u>	<u>803,907,419</u>	<u>827,910,689</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

(CONTINUED)

	Governmental Activities	Business Type Activities	Totals
<b>Liabilities</b>			
Current liabilities:			
Liabilities payable from restricted assets:			
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	\$ -	\$ 52,405,000	\$ 52,405,000
Accrued interest payable on bonds	-	14,561,700	14,561,700
Mortgage escrows	-	7,228,669	7,228,669
Other	-	247,036	247,036
Total liabilities payable from restricted current assets	-	74,442,405	74,442,405
Accrued compensated absences	-	284,516	284,516
Accrued salaries and related payroll expenses	-	472,349	472,349
Accrued interest	-	23,750	23,750
Other accrued liabilities	-	74,394	74,394
Mortgage escrows	5,160	-	5,160
Due to grantor	-	177,297	177,297
Other liabilities	-	866,788	866,788
Total current liabilities	5,160	76,341,499	76,346,659
Non-current liabilities:			
Accrued compensated absences, net of current portion	-	288,402	288,402
Bonds payable, net of current portion on unamortized premiums and discounts and deferral losses on refundings	-	503,328,093	503,328,093
Total noncurrent liabilities	-	503,616,495	503,616,495
Total liabilities	5,160	579,957,994	579,963,154
<b>Net Assets</b>			
Invested in capital assets	-	73,325	73,325
Restricted for:			
Debt service	-	170,597,431	170,597,431
Bond reserves	-	13,627,384	13,627,384
Special programs	23,998,110	38,702,573	62,700,683
Unrestricted	-	948,712	948,712
Total net assets	\$ 23,998,110	\$ 223,949,425	\$ 247,947,535

See accompanying notes.

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

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2003**

	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Housing Trust Fund	\$ 3,776,601	\$ -	\$ 299,326	\$ (3,477,275)	\$ -	\$ (3,477,275)
Total governmental activities	3,776,601	-	299,326	(3,477,275)	-	(3,477,275)
Business-type activities:						
Administrative	8,807,505	8,488,006	-	-	(319,499)	(319,499)
Single-Family Mortgage Loan Programs	30,752,451	34,147,757	5,552,056	-	8,947,362	8,947,362
Multi-Family Mortgage Loan Programs	1,632,290	2,577,595	89,807	-	1,035,112	1,035,112
Multi-Family Federal Assistance Programs	92,422,955	-	96,134,057	-	3,711,102	3,711,102
Program Fund Programs	9,722	350,716	115,103	-	456,097	456,097
State Housing Corporation	23,913	-	7,735	-	(16,178)	(16,178)
Total business-type activities	133,648,836	45,564,074	101,898,758	-	13,813,996	13,813,996
Total functions/programs	\$ 137,425,437	\$ 45,564,074	\$ 102,198,084	(3,477,275)	13,813,996	10,336,721
General revenue:						
Documentary stamp taxes				7,568,750	-	7,568,750
Transfer to General Fund of the State				(892,571)	(1,617,784)	(2,510,355)
Extraordinary item:						
Loss on early extinguishment of debt				-	(538,286)	(538,286)
Total general revenue, transfers, and extraordinary items				6,676,179	(2,156,070)	4,520,109
Change in net assets				3,198,904	11,657,926	14,856,830
Net assets, at beginning of year				20,799,206	212,291,499	233,090,705
Net assets, at ending of year				\$ 23,998,110	\$ 223,949,425	\$ 247,947,535

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See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2003

	<b>Housing Trust Fund</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 15,210,515
Accounts receivable:	
Due from State Agency	1,465,936
Loans receivable	209,265
Accrued interest receivable:	
Loans	11,928
Total current assets	<u>16,897,644</u>
Non-current assets:	
Loans receivable, net of current portion	7,105,626
Total non-current assets	<u>7,105,626</u>
Total assets	<u><u>\$ 24,003,270</u></u>
<b>Liabilities and Fund Balance</b>	
Current liabilities:	
Mortgage escrows	\$ 5,160
Total current liabilities	<u>5,160</u>
Fund Balance:	
Reserved for housing projects and development	23,998,110
Total fund balance	<u>23,998,110</u>
Total liabilities and fund balance	<u><u>\$ 24,003,270</u></u>

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

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

YEAR ENDED JUNE 30, 2003

	<b>Housing Trust Fund</b>
<b>Revenue</b>	
Documentary stamp taxes	\$ 7,568,750
Interest on loans	112,791
Interest on deposits and investments	186,535
Total revenue	<u>7,868,076</u>
<b>Expenditures</b>	
Grants for housing trust programs	<u>3,776,601</u>
Total expenditures	<u>3,776,601</u>
Excess of revenue over expenditures	4,091,475
<b>Other Financing Sources (Uses)</b>	
Transfer to General Fund of the State	<u>(892,571)</u>
Total other financing sources (uses)	<u>(892,571)</u>
Net change in fund balances	3,198,904
Fund balance, at beginning of year	<u>20,799,206</u>
Fund balance, at end of year	<u><u>\$ 23,998,110</u></u>

*See accompanying notes.*

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2003

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Blended Component Unit State Housing Corporation	Eliminations	Totals
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 5,978,408	\$ -	\$ -	\$ 1,785,430	\$ 4,889,568	\$ -	\$ 12,653,406
Restricted assets:							
Cash and cash equivalents	-	72,713,452	1,667,020	61,933	-	-	74,442,405
Accounts receivable:							
Due from grantor	1,484,641	-	-	-	-	-	1,484,641
Other	1,327,150	-	-	100,941	-	-	1,428,091
Loans receivable	466,185	-	242,775	35,509	-	-	744,469
Accrued interest receivable:							
Loans	-	-	-	38,421	-	-	38,421
Deposits and investments	-	-	-	1,632	-	-	1,632
Interfund receivable	-	-	-	200,000	-	(200,000)	-
Total current assets	<u>9,256,384</u>	<u>72,713,452</u>	<u>1,909,795</u>	<u>2,223,866</u>	<u>4,889,568</u>	<u>(200,000)</u>	<u>90,793,065</u>
Non-current assets:							
Investments	-	-	-	664,020	-	-	664,020
Loans receivable, net of current portion and unamortized discounts	17,278,727	-	-	-	-	-	17,278,727
Restricted assets:							
Cash and cash equivalents	-	155,973,147	3,524,319	-	-	-	159,497,466
Accounts receivable	-	-	309,739	-	-	-	309,739
Investments	-	4,079,141	231,619	-	-	-	4,310,760
Loans receivable, net of unamortized discounts	-	495,568,999	18,362,065	7,720,145	-	-	521,651,209
Accrued interest receivable:							
Investments	-	400,522	20,782	-	-	-	421,304
Loans	-	4,213,925	195,812	-	-	-	4,409,737
Unamortized bond issuance cost	-	4,240,222	189,841	-	-	-	4,430,063
Capital assets, net of accumulated depreciation	73,325	-	-	-	-	-	73,325
Interfund receivable	-	-	-	4,750,000	-	(4,750,000)	-
Other assets	-	-	-	-	68,004	-	68,004
Total noncurrent assets	<u>17,352,052</u>	<u>664,475,956</u>	<u>22,834,177</u>	<u>13,134,165</u>	<u>68,004</u>	<u>(4,750,000)</u>	<u>713,114,354</u>
Total assets	<u>26,608,436</u>	<u>737,189,408</u>	<u>24,743,972</u>	<u>15,358,031</u>	<u>4,957,572</u>	<u>(4,950,000)</u>	<u>803,907,419</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

(CONTINUED)

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Blended Component Unit State Housing Corporation	Eliminations	Totals
<b>Liabilities</b>							
Current liabilities:							
Liabilities payable from restricted assets:							
Bonds payable	\$ -	\$ 52,015,000	\$ 390,000	\$ -	\$ -	\$ -	\$ 52,405,000
Accrued interest payable on bonds	-	14,415,673	146,027	-	-	-	14,561,700
Mortgage escrows	-	6,098,437	1,129,631	601	-	-	7,228,669
Other	-	184,342	1,362	61,332	-	-	247,036
Total liabilities payable from restricted assets	-	72,713,452	1,667,020	61,933	-	-	74,442,405
Accrued compensated absences	284,516	-	-	-	-	-	284,516
Accrued salaries and related payroll expenses	472,349	-	-	-	-	-	472,349
Accrued interest	-	-	-	-	23,750	-	23,750
Other accrued liabilities	74,394	-	-	-	-	-	74,394
Due to grantor	177,297	-	-	-	-	-	177,297
Interfund payable	-	-	-	-	200,000	(200,000)	-
Other liabilities	866,788	-	-	-	-	-	866,788
Total current liabilities	1,875,344	72,713,452	1,667,020	61,933	223,750	(200,000)	76,341,499
Non-current liabilities:							
Accrued compensated absences, net of current portion	288,402	-	-	-	-	-	288,402
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	-	487,222,478	16,105,615	-	-	-	503,328,093
Interfund payable	-	-	-	-	4,750,000	(4,750,000)	-
Total noncurrent liabilities	288,402	487,222,478	16,105,615	-	4,750,000	(4,750,000)	503,616,495
Total liabilities	2,163,746	559,935,930	17,772,635	61,933	4,973,750	(4,950,000)	579,957,994
<b>Net Assets</b>							
Invested in capital assets	73,325	-	-	-	-	-	73,325
Restricted for:							
Debt service	-	163,857,713	6,739,718	-	-	-	170,597,431
Debt service reserves	-	13,395,765	231,619	-	-	-	13,627,384
Special programs	23,406,475	-	-	15,296,098	-	-	38,702,573
Unrestricted	964,890	-	-	-	(16,178)	-	948,712
Total net assets	\$ 24,444,690	\$ 177,253,478	\$ 6,971,337	\$ 15,296,098	\$ (16,178)	\$ -	\$ 223,949,425

See accompanying notes.



SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2003

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Blended Component Unit State Housing Corporation	Totals
<b>Operating Revenue</b>						
Pledged revenue:						
Interest and other charges on loans	\$ 337,931	\$ 34,147,757	\$ 2,577,595	\$ 163,304	\$ -	\$ 37,226,587
Income on deposits and investments	-	5,513,546	89,807	115,103	7,735	5,726,191
Other revenue:						
Bond premium amortization	-	38,510	-	-	-	38,510
Administrative fees and other	8,150,075	-	-	187,412	-	8,337,487
<b>Total operating revenue</b>	<b>8,488,006</b>	<b>39,699,813</b>	<b>2,667,402</b>	<b>465,819</b>	<b>7,735</b>	<b>51,328,775</b>
<b>Operating Expenses</b>						
Bond interest	-	29,153,771	1,172,361	-	-	30,326,132
Program services	-	1,173,919	444,677	9,722	163	1,628,481
General and administrative	8,776,300	-	-	-	-	8,776,300
Bond issuance cost amortization	-	240,873	15,252	-	-	256,125
Depreciation of capital assets	31,205	-	-	-	-	31,205
Note interest expense	-	-	-	-	23,750	23,750
Other expenses	-	183,888	-	-	-	183,888
<b>Total operating expenses</b>	<b>8,807,505</b>	<b>30,752,451</b>	<b>1,632,290</b>	<b>9,722</b>	<b>23,913</b>	<b>41,225,881</b>
<b>Operating Income (Loss)</b>	<b>(319,499)</b>	<b>8,947,362</b>	<b>1,035,112</b>	<b>456,097</b>	<b>(16,178)</b>	<b>10,102,894</b>
<b>NonOperating Revenue (Expenses)</b>						
Housing assistance contributions earned	96,134,057	-	-	-	-	96,134,057
Housing assistance payments	(92,422,955)	-	-	-	-	(92,422,955)
<b>Total nonoperating revenue (expenses)</b>	<b>3,711,102</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,711,102</b>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

(CONTINUED)

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Blended Component Unit State Housing Corporation	Totals
<b>Income Before Operating Transfers and Extraordinary Items</b>	<b>\$ 3,391,603</b>	<b>\$ 8,947,362</b>	<b>\$ 1,035,112</b>	<b>\$ 456,097</b>	<b>\$ (16,178)</b>	<b>\$ 13,813,996</b>
<b>Transfers</b>						
Transfers from (to) other programs - net	3,475,978	(3,573,000)	(431,724)	528,746	-	-
Transfer to General Fund of the State	-	-	-	(1,617,784)	-	(1,617,784)
<b>Total transfers</b>	<b>3,475,978</b>	<b>(3,573,000)</b>	<b>(431,724)</b>	<b>(1,089,038)</b>	<b>-</b>	<b>(1,617,784)</b>
<b>Income (Loss) Before Extraordinary Item</b>	<b>6,867,581</b>	<b>5,374,362</b>	<b>603,388</b>	<b>(632,941)</b>	<b>(16,178)</b>	<b>12,196,212</b>
<b>Extraordinary Item</b>						
Loss on early extinguishment of debt	-	(351,466)	-	(186,820)	-	(538,286)
<b>Increase (decrease) in net assets</b>	<b>6,867,581</b>	<b>5,022,896</b>	<b>603,388</b>	<b>(819,761)</b>	<b>(16,178)</b>	<b>11,657,926</b>
<b>Net assets, at beginning of year</b>	<b>17,577,109</b>	<b>172,230,582</b>	<b>6,367,949</b>	<b>16,115,859</b>	<b>-</b>	<b>212,291,499</b>
<b>Net assets, at end of year</b>	<b>\$ 24,444,690</b>	<b>\$ 177,253,478</b>	<b>\$ 6,971,337</b>	<b>\$ 15,296,098</b>	<b>\$ (16,178)</b>	<b>\$ 223,949,425</b>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

JUNE 30, 2003

					Blended Component Unit	
	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	State Housing Corporation	Totals
<b>Cash Flows From Operating Activities</b>						
Receipt of loan payments	\$ 411,131	\$ 113,161,975	\$ 6,705,422	\$ 1,493,051	\$ -	\$ 121,771,579
Purchase/origination of new loans	(3,724,262)	(50,257,018)	-	(5,146,557)	-	(59,127,837)
Receipts from HUD	5,404,304	-	-	-	-	5,404,304
Other receipts	1,258,457	-	-	-	-	1,258,457
Payments to employees	(4,842,472)	-	-	-	-	(4,842,472)
Payments to vendors	(8,695,160)	(831,596)	(444,383)	(9,104)	(68,167)	(10,048,410)
Payments to customers	-	-	(1,439,988)	(2,257)	-	(1,442,245)
Net cash flows provided (used) for operating activities	(10,188,002)	62,073,361	4,821,051	(3,664,867)	(68,167)	52,973,376
<b>Cash Flows from Noncapital Financing Activities</b>						
Transfers from other programs	3,475,978	-	-	528,746	-	4,004,724
Transfers to other programs	-	(3,573,000)	(431,724)	-	-	(4,004,724)
Receipts from HUD	96,134,057	-	-	-	-	96,134,057
Payments of housing assistance	(92,422,955)	-	-	-	-	(92,422,955)
Transfer to General Fund of the State	-	-	-	(1,617,784)	-	(1,617,784)
Proceeds from sale of bonds	-	73,000,000	-	-	-	73,000,000
Principal payments on bonds payable	-	(6,325,000)	(365,000)	-	-	(6,690,000)
Interest payments on bonds payable	-	(29,040,176)	(1,161,523)	-	-	(30,201,699)
Payment on bond issuance costs	-	(576,995)	-	-	-	(576,995)
Proceeds from capital debt	-	-	-	-	4,950,000	4,950,000
Early retirement of bonds payable	-	(36,665,000)	-	-	-	(36,665,000)
Net cash provided (used) for noncapital activities	7,187,080	(3,180,171)	(1,958,247)	(1,089,038)	4,950,000	5,909,624
<b>Cash Flows from Investing Activities</b>						
Proceeds from sale of investments	-	-	-	-	-	-
Income on deposits and investments	-	5,169,503	86,992	127,161	7,735	5,391,391
Net cash provided (used) for investing activities	-	5,169,503	86,992	127,161	7,735	5,391,391
Net increase (decrease) in cash and cash equivalents	(3,000,922)	64,062,693	2,949,796	(4,626,744)	4,889,568	64,274,391
Cash and cash equivalents, beginning of year	8,979,330	164,623,906	2,241,543	6,474,107	-	182,318,886
Cash and cash equivalents end of year	\$ 5,978,408	\$ 228,686,599	\$ 5,191,339	\$ 1,847,363	\$ 4,889,568	\$ 246,593,277

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(CONTINUED)

	<u>General Operating</u>	<u>Single-Family Finance Programs</u>	<u>Multi-Family Finance Programs</u>	<u>Program</u>	<u>Blended Component Unit State Housing Corporation</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)	\$ (319,499)	\$ 8,947,362	\$ 1,035,112	\$ 456,097	\$ (16,178)	\$ 10,102,894
Adjustments to reconcile net operating income (loss) to net cash flows provided by (used for) operating activities:						
Depreciation	31,205	-	-	-	-	31,205
Bond premium amortization	-	(38,510)	-	-	-	(38,510)
Bond issuance cost amortization	-	240,873	15,252	-	-	256,125
Bonds interest expense reclassified to noncapital financing activities	-	29,153,771	1,172,361	-	-	30,326,132
Income on deposits and investments reclassified to investing activities	-	(5,513,546)	(89,807)	(115,103)	(7,735)	(5,726,191)
Mortgage loan discounts amortization	-	(4,331)	-	-	-	(4,331)
Mortgage loan principal adjustment	-	62	-	-	-	62
Receipt of loan principal payments	411,131	77,748,498	2,737,253	1,076,789	-	81,973,671
Purchase/origination of new loans	(3,724,262)	(50,257,018)	-	(5,146,557)	-	(59,127,837)
	(3,281,926)	51,329,799	3,835,059	(4,184,871)	(7,735)	47,690,326

SOUTH CAROLINA STATE HOUSING FINANCE  
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(CONTINUED)

**Noncash Noncapital Financing Activities**

- a. Interest payments on bonds do not include \$56,158 amortization of bond discounts and \$193,343 of amortization of deferred losses on refundings of debt that were included in operating expense as bond interest.

	<b>Bond Discounts</b>	<b>Deferred Losses on Refundings</b>
Single Family Finance Programs Fund	\$ 41,533	\$ 193,343
Multi-Family Finance Program Fund	14,625	-
Total	<u>\$ 56,158</u>	<u>\$ 193,343</u>

- b. Unamortized bond discounts of \$87,196 and unamortized bond issuance costs of \$264,270 were written off as an extraordinary loss in the Single Family Finance Programs Fund.
- c. First mortgages for the Down Payment Assistance loans, foreclosed on, resulted in \$186,820 being written off as an extraordinary loss in the Program Fund.

*See accompanying notes.*

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

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

### **1. Summary of Significant Accounting Policies**

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

#### **Reporting Entity**

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

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

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

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by 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 one blended component unit in the State Housing Corporation (the "Corporation"); the Corporation 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.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the Authority has determined it is not a component of another entity. The financial statements report the activity of the Authority and its blended component unit.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

As required by generally accepted accounting principles, these financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

The following is a description of the blended component unit:

The Corporation was formed as a separate not-for-profit organization. The responsibility of the Corporation is to provide affordable housing opportunities for low and very-low income households by cooperating with governmental and not-for-profit housing providers. The Corporation shall not participate in the competitive programs of the Authority, including the Low Income Housing Tax Credit, South Carolina Housing Trust Fund, and HOME Programs.

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

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



# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

#### **Fund Accounting**

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

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

#### **Governmental Funds**

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

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

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

#### **Proprietary Funds**

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

**The General Operating Fund** records administrative fees from the U.S. Department of Housing and Urban Development (HUD) programs 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. Mortgages have been purchased covering projects that house low income citizens meeting Federal eligibility requirements. All mortgages under these indentures are insured by the Federal Housing Administration. The programs generate income to cover costs of administration and debt service on the bonds. Excess funds may be transferred to other programs at the discretion of the Authority.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

#### **State Housing Corporation**

The Corporation was formed as a separate not-for-profit organization. The responsibility of the Corporation is to provide affordable housing opportunities for low and very-low income households by cooperating with governmental and not-for-profit housing providers. The Corporation shall not participate in the competitive programs of the Authority, including the Low Income Housing Tax Credit, South Carolina Housing Trust Fund, and HOME Programs.

#### **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 revenue and expenditures are recognized on the modified accrual basis of accounting. Revenue 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.

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

The Authority recognizes revenue and expenses and the recording of depreciation expense for the enterprise fund-type using the accrual basis of accounting. Revenue 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, revenue are recognized when earned and expenses when incurred. In accordance with GASB statement 20, the Authority has elected to apply all applicable GASB pronouncements as well as all applicable FASB pronouncements issued on or before November 30, 1989 not in conflict with GASB standards.

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

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

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Nonexchange Transactions**

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

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

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

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

#### **Federally Assisted Program Advances and Fees**

In accordance with the terms of contracts between the Authority and the U.S. Department of Housing and Urban Development (HUD), the Authority administers Section 8 Housing Assistance Payments Programs 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.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

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

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

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

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

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

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

### **Investments**

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



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

## **NOTES TO FINANCIAL STATEMENTS**

**-CONTINUED-**

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

#### **Loans Receivable**

Loans receivable consist of mortgage loans which are carried at par. Discounts on loans are deferred and amortized using the sum-of-the-years digit method over the estimated life of ten years for single family loans and the actual life of the loan for multi-family loans and are included in interest income. All mortgage loans are insured with various mortgage insurance carriers at specified percentages of the loan amount varying from 25% to 100%. 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.

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.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

#### **Compensated Absences**

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days 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 \$16,000 arbitrage expense for the year ended June 30, 2003, which was recorded in operating expenses in the Proprietary Funds under other expenses.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

#### **Budget Policy**

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

#### **Operating and Non-Operating Revenue and Expenses**

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Net Assets**

Net assets are classified and presented in three components:

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

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

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

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

**Use of Estimates**

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

### 2. Deposits and Investments

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	\$ 27,863,921	Treasurer	\$ 23,384,084
Restricted	74,442,405	Other Deposits	15,525,770
		Total deposits	<u>38,909,854</u>
Non-current assets:		Investments:	
Cash and cash		Treasurer	664,020
equivalents-restricted	159,497,466	Other Investments	227,204,698
Investments:		Total investments	<u>227,868,718</u>
Unrestricted	664,020		
Restricted	<u>4,310,760</u>		
Total	<u>\$ 266,778,572</u>	Total	<u>\$ 266,778,572</u>

#### Deposits Held by State Treasurer

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**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	\$ 13,359,676	\$ 11,002,981
Category 3	<u>4,332,336</u>	<u>4,522,788</u>
Total other deposits	<u><u>\$ 17,692,012</u></u>	<u><u>\$ 15,525,769</u></u>

The highest balance during the year ended June 30, 2003 in Category 3 was approximately \$4,672,737.

**Investments Held by State Treasurer**

The amounts classified as "Investments Held by State Treasurer" in the financial statements totaled \$664,020 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.

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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, 2003. 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.

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, 2003. However, information pertaining to the credit risk for investments of an individual agency, department, or institution is not available.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

The securities held by the State Treasurer for the Authority at June 30, 2003 follows:

U.S. Treasury Bond, at fair value	<u>\$ 664,020</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.



SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

A summary of these investments, which are, reported at fair value at June 30, 2003 follows:

Repurchase agreements, collateralized by U. S. Government securities	\$ 220,492,072
U.S. Government obligations	3,297,505
U.S. Government Agency obligations	<u>4,079,141</u>
Totals	<u><u>\$ 227,868,718</u></u>

**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, 2003 are as follows:

	<u>Reserve Requirements</u>	<u>Actual Funding</u>	<u>Over (Short)</u>
Single Family Mortgage Reserve Funds-1998	\$ 3,209,250	\$ 3,209,250	\$ -
Home Ownership Reserve Funds			
Bond Reserve	378,900	648,700	269,800
Special Insurance Reserve H01987A, H01988A, H01988C, H01988C2 and H01989A, H01990A, H01990C, H01991A, H01991B, H01994A,	<u>67,230</u>	<u>1,199,241</u>	<u>1,132,011</u>
Total Home Ownership	446,130	1,847,941	1,401,811
Mortgage Revenue Bond Reserve Funds	7,049,700	8,338,574	1,288,874
Multi-Family 1992A&B Mortgage Reserve Funds	<u>231,619</u>	<u>231,619</u>	<u>-</u>
Totals	<u><u>\$ 10,936,699</u></u>	<u><u>\$ 13,627,384</u></u>	<u><u>\$ 2,690,685</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**3. Loans Receivable**

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

**Governmental Funds**

Housing Trust Fund notes maturing on various dates 2012-2032 plus interest ranging from 1%-5% per payable in monthly installments of principal and interest, as provided in the notes	\$ 7,314,891
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Total governmental funds	<u>\$ 7,314,891</u>
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**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	\$ 17,744,912
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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 \$1,145.	495,568,999
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Multi-family Finance Programs notes maturing on various dates from 2022-2025 plus interest at 12% per annum; payable in monthly installments of principal and interest, as provided in the notes	18,604,840
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Program Fund notes maturing on various dates from 2002 to 2011 plus interest ranging from 0% - 8% per annum; payable in installments of principal and interest as provided in the notes.	<u>7,755,654</u>
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Total proprietary funds	<u>\$ 539,674,405</u>
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Discounts earned and included in interest and other charges on loans amounted to \$4,331 for the Single Family Finance Programs.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**4. Capital Assets**

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance June 30, 2002	Increases	Decreases	Ending Balance June 30, 2003
Equipment and furniture	\$ 308,673	\$ -	\$ -	\$ 308,673
Accumulated depreciation	(204,143)	(31,205)	-	(235,348)
Capital assets, net of accumulated depreciation	<u>\$ 104,530</u>	<u>\$ (31,205)</u>	<u>\$ -</u>	<u>\$ 73,325</u>

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

Long-term liabilities activity for the year ended June 30, 2003 were as follows:

	Beginning Balances June 30, 2002	Additions	Reductions	Ending Balances June 30, 2003	Due within One Year
Bonds payable	\$ 528,460,000	\$ 73,000,000	\$ 43,355,000	\$ 558,105,000	\$ 52,405,000
Unamortized premiums and discounts	325,145	-	(104,226)	429,371	-
Deferred amount on refunding	(2,994,622)	-	(193,344)	(2,801,278)	-
Total bonds payable	<u>525,790,523</u>	<u>73,000,000</u>	<u>43,057,430</u>	<u>555,733,093</u>	<u>52,405,000</u>
Accrued compensated absences	<u>563,813</u>	<u>323,433</u>	<u>314,328</u>	<u>572,918</u>	<u>284,516</u>
Totals	<u>\$ 526,354,336</u>	<u>\$ 73,323,433</u>	<u>\$ 43,371,758</u>	<u>\$ 556,306,011</u>	<u>\$ 52,689,516</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**6. Bonds Payable**

At June 30, 2003, bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refunding of debt, consisted of the following:

	<b>Date Issued</b>	<b>Issue Amount</b>	<b>Outstanding Balance</b>
Single Family Mortgage Revenue Bonds 1998 (4.95% to 5.275%) due 2018-2036	09/11/98	\$ 106,975,000	\$ 106,975,000
Plus, unamortized premium			1,232,044
			<u>108,207,044</u>
Homeownership Mortgage Purchase Bonds 1994A (5.45% to 6.375%) due 2002-2016	05/01/94	25,000,000	10,330,000
Less, unamortized discounts			(76,157)
			<u>10,253,843</u>
Mortgage Revenue Bonds/Notes			
1994A (5.375% to 6.75%) due 2002-2026	10/20/94	30,000,000	13,405,000
1995A (5.45% to 6.70%) due 2002-2027	03/01/95	25,000,000	14,105,000
1996A (5.00% to 6.35%) due 2002-2028	05/01/96	25,000,000	13,875,000
1997A (4.65% to 5.9%) due 2002-2029	06/01/97	30,000,000	23,565,000
1999A (3.90% to 5.40%) due 2002-2030	12/23/98	37,700,000	32,785,000
1999B (5.10% to 8.30%) due 2002-2030	11/01/99	139,910,000	110,355,000
2000A (5.40% to 6.40%) due 2003-2032	06/01/00	121,435,000	80,690,000
2001A (3.75% to 5.50%) due 2004-2033	08/01/01	63,455,000	62,350,000
2002A (2.20% to 4.95%) due 2005-2034	10/01/02	40,000,000	40,000,000
2002B-1 (1.57% ) due 2003	10/01/02	1,350,000	1,350,000
2002B-2 (1.57% ) due 2003	10/01/02	31,650,000	31,650,000
			<u>424,130,000</u>
Less: Unamortized discounts			(552,130)
Unamortized deferred losses on refundings on debt			(2,801,278)
			<u>420,776,592</u>
Multi-family Residential Revenue Bonds 1992A (3.50% to 6.875%) due 2002-2024	05/21/92	19,625,000	16,670,000
Less, unamortized discounts			(174,386)
			<u>16,495,614</u>
Total bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			<u><u>\$ 555,733,093</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**6. Bonds Payable (Continued)**

Amounts including interest required to complete payment of the bond obligation as of June 30, 2003 are as follows:

Year Ending	Principal	Interest	Totals
2004	\$ 52,405,000	\$ 29,422,195	\$ 81,827,195
2005	8,910,000	28,278,217	37,188,217
2006	9,885,000	27,808,384	37,693,384
2007	10,325,000	27,298,157	37,623,157
2008	10,785,000	26,755,706	37,540,706
2009-2013	64,400,000	124,055,503	188,455,503
2014-2018	83,625,000	103,268,572	186,893,572
2019-2023	99,305,000	76,940,276	176,245,276
2024-2028	102,860,000	47,154,662	150,014,662
2029-2033	88,705,000	18,281,199	106,986,199
2034-2038	26,900,000	1,946,775	28,846,775
Total	<u>\$ 558,105,000</u>	<u>\$ 511,209,646</u>	<u>\$ 1,069,314,646</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, 2003:

Home-ownership Mortgage Revenue Series 1994 A	<u>\$ 1,765,000</u> <u>1,765,000</u>
Mortgage Revenue Bonds	
Series 1994 A	2,190,000
Series 1995 A	1,420,000
Series 1996 A	2,760,000
Series 1997 A	1,995,000
Series 1999 A	2,035,000
Series 1999 B	11,725,000
Series 2000 A	11,670,000
Series 2001 A	<u>1,105,000</u>
	<u>34,900,000</u>
Totals	<u>\$ 36,665,000</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**6. Bonds Payable (Continued)**

Single Family Finance Programs bonds, redeemed at par, resulted in unamortized bond discounts of \$87,196 and bond issuance costs of \$264,270 being written off and reflected as a loss on early extinguishments of debt for the year ended June 30, 2003.

Program Fund first mortgages for the Down Payment Assistance loans, foreclosed on, resulted in \$186,820 being written off and reflected as a loss on early extinguishments of debt for the year ended June 30, 2003.

Amortization of bond discounts for the year ended June 30, 2003 that were included in bond interest expense in the proprietary fund follow:

Single Family Home-ownership Mortgage Revenue	\$ 4,044
Single Family Mortgage Revenue	37,489
Multi-family Residential Revenue	14,625
	<u>\$ 56,158</u>

Bond premium amortized for the year ended June 30, 2003 and attributable to the Single Family Finance Programs Fund bonds totaled \$38,510 and was reported as a single item revenue amount in the proprietary fund.

Amortization of deferred losses on refundings of debt of \$193,343 for the year ended June 30, 2003 and attributable to the Single Family Finance Programs Fund bonds was included in bond interest expense in the proprietary fund.

**7. Interfund receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2003 is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
Program	State Housing Corporation	\$ 4,950,000	Purchase of multi-family apartments
		<u>\$ 4,950,000</u>	

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**8. Leases**

At June 30, 2003 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 2004 through 2008.

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

<u>Year Ending June 30,</u>	
2004	\$ 501,195
2005	146,756
2006	8,918
2007	3,696
2008	1,232
	<u>\$ 661,797</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 \$658,600 under the aforementioned leases for the fiscal year ended June 30, 2003.

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

### **8. Leases (Continued)**

In addition to the above leases, the Authority has entered into four noncancellable copier leases on a "pay per copy" plan. The leases expire in fiscal years ending June 30, 2003 to 2006. Approximately \$37,700 was expended under these leases during the fiscal year ended June 30, 2003.

### **9. 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 2003 expenditures were not readily available.



SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**9. Transactions With State Entities (Continued)**

- The Authority was required to remit \$2,510,355 to the General Fund of the State pursuant to Proviso 72.97 of the 2003 Appropriation Act as follows.

Program Fund	\$ 1,617,784
Housing Trust Fund	<u>892,571</u>
	<u><u>\$ 2,510,355</u></u>

**10. 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, 2003 follow:

- \$3,573,000 from the Single Family Finance Program to the General Operating fund to pay for operating expenses.
- \$97,022 from the General Operating Fund to the Program Fund to pay for administrative fees.
- \$431,724 from the Multi-family Finance Program to the Program Fund for the purchase of new loans.

**11. Risk Management**

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**11. Risk Management (Continued)**

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

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

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

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

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

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

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**11. Risk Management (Continued)**

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

**12. 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.

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 1985 (84/85)</b>			
10/84	Conduit Mortgage Loan Notes (Cypress General Partnership)	\$ 1,075,000	\$ 78,184
06/85	Conduit Mortgage Loan Notes (Breckenridge Apt. Project)	3,000,000	763,366
12/85	Multi-family Guaranteed Mortgage Revenue Bonds, 1985B (CTS Parklane)	12,050,000	12,050,000
12/85	Conduit Mortgage Loan Notes (Crossroad Apt. Project)	2,150,000	1,357,235
<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	6,600,000
<b>Fiscal Year 1989 (88/89)</b>			
12/88	Multi-family Housing Revenue Refunding Bonds (Waverly Place)	8,400,000	4,600,000
07/89	Variable Housing Revenue Refunding Bonds (Patriot Place)	2,200,000	-

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**12. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 1991 (90/91)</b>			
09/90	Multi-family Housing Revenue Bonds 1990 Series A (Westbridge)	2,850,000	2,560,000
<b>Fiscal Year 1992 (91/92)</b>			
10/91	Multi-family Housing Revenue Bonds (Plum Chase)	7,000,000	6,900,000
<b>Fiscal Year 1993 (92/93)</b>			
06/93	Multi-family Housing Revenue Refunding Bonds (Westbury Place)	5,510,000	4,765,000
06/93	Multi-family Housing Revenue Refunding Bonds (Windsor Shores)	5,085,000	3,385,000
06/94	Multi-family Housing Revenue Refunding Bonds (North Bluff)	3,940,000	2,690,000
<b>Fiscal Year 1994 (93/94)</b>			
06/94	Multi-family Housing Mortgage Revenue Bonds (Union-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 (Union-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	6,235,000
<b>Fiscal Year 1996 (95/96)</b>			
11/95	Multi-family Housing Revenue Refunding Bonds (Runaway Bay)	10,300,000	770,000
11/95	Mortgage Revenue Refunding Bonds (Heritage)	4,525,000	4,140,000
<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	9,000,000

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**12. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 1999 (98/99)</b>			
05/99	Multi-family 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 Rental Housing Revenue Bonds (Paces Watch Apts)	10,600,000	10,600,000
10/00	Multi-family Rental Housing Revenue Bonds (City Heights Apts.)	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./Richland Oxford)	11,130,000	11,130,000
02/01	Multi-family Rental Housing Revenue Bonds (Ashton & Stoney Creek Apts.)	16,600,000	16,300,000
06/01	Multi-family Housing Revenue Bonds (Fairway Apts. Project)	7,735,000	7,735,000
06/01	Multi-family Housing Revenue Refunding Bonds (East Ridge Project)	8,700,000	8,700,000
06/01	Multi-family Rental Housing Revenue Bonds (Martin's Creek Project)	7,300,000	7,300,000
06/01	Multi-family Rental Housing Revenue Bonds (Bay Club Project)	6,400,000	6,400,000

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**12. Conduit Debt (Continued)**

<b>Issue Date</b>	<b>Bond/Note Title</b>	<b>Original Issue Amount</b>	<b>Amount Outstanding</b>
<b>Fiscal Year 2002 (01/02)</b>			
08/01	Multi-family Housing Revenue Refunding Bonds (North Slope Apts./Greenville Oxford Project)	4,955,000	4,955,000
08/01	Multi-family Housing Revenue Refunding Bonds (Springhouse Apts./Charleston Oxford Project)	10,180,000	10,180,000
08/01	Multi-family Housing Revenue Refunding Bonds (Hunt Club Apts./Spartanburg Oxford Project)	9,415,000	9,415,000
08/01	Multi-family Housing Revenue Refunding Bonds (Arrington Place Apartments)	2,680,000	2,680,000
12/01	Multi-family Housing Revenue Refunding Bonds (Cedarwood Apartments-Columbia, SC)	8,750,000	8,750,000
12/01	Multi-family Housing Revenue Refunding Bonds (Belton Woods Apts.)	5,795,000	5,745,000
<b>Fiscal Year 2003 (02/03)</b>			
12/02	Multi-family Rental Housing Revenue Bonds (Poplar Square Apartments)	2,960,000	2,949,998
12/02	Multi-family Rental Housing Revenue Bonds (Spring Grove Apartments Project)	7,410,000	7,410,000
Total		<u>\$ 275,285,000</u>	<u>\$ 246,697,783</u>

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

### **13. Pension Plan**

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

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

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

### 13. Pension Plan (Continued)

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2002 the employer contribution rate became 10.70 percent, which included a 3.15 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, 2003, 2002, and 2001 were approximately \$363,000, \$342,000 and \$307,000 respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the Authority paid employer group life insurance contributions of approximately \$7,200 for the current fiscal year at the rate of .15% of compensation.

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

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



# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

### **13. Pension Plan (Continued)**

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

### **14. Post Employment And Other Employee Benefits**

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

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

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

# SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

### **14. Post Employment And Other Employee Benefits (Continued)**

The Authority recorded employer contributions expenditures within the applicable operating expense categories for these insurance benefits for active employees of approximately \$363,000 for the year ended June 30, 2003. As discussed in *Note 12*, the Authority paid approximately \$150,000 applicable to the 3.15 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.

### **15. Deferred Compensation Plans**

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

The State has authorized deferred compensation matching contributions which are funded from various funding sources based on the same percentages used for employees' salaries. The Authority did not make any contributions for the fiscal year ended June 30, 2003.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**16. 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, 2003.

**17. Subsequent Events**

In August 2003, the Authority will issue Series 2003 A-1 and A-2 Mortgage Revenue Bonds and Notes totaling \$50,000,000 with maturities in fiscal years 2005 - 2034 and interest rates of 1.60% - 5.45% per annum in its Single Family Finance Programs proprietary fund.

The Authority is required by Proviso 73.2 of the 2004 Appropriations Act to transfer \$5,583,000 from the Program Fund of the proprietary fund to the General Fund of the State of South Carolina.

**18. Commitments:**

The Authority has financial award commitments outstanding totaling approximately \$5,035,231 as of June 30, 2003 under the Housing Trust fund program.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**19. Segment Financial Information**

Segment financial information as required by the bond trustees for each indenture of the Authority's Single Family Finance Programs as of and for the year ended June 30, 2003 is presented on the following pages.

<b>Statement of Net Assets - June 30, 2003</b>				
	<b>Single Family</b>	<b>Home Ownership</b>	<b>Mortgage Revenue</b>	<b>Totals</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents-restricted	\$ 8,948,966	\$ 2,419,548	\$ 61,344,938	\$ 72,713,452
Total current assets	8,948,966	2,419,548	61,344,938	72,713,452
Non-current assets				
Restricted assets:				
Cash and cash equivalents	79,766,269	1,658,472	74,548,406	155,973,147
Investments	-	2,940,031	1,139,110	4,079,141
Loan receivable, net of unamortized discounts	141,592,482	20,361,245	333,615,272	495,568,999
Accrued interest receivable:				
Deposits and investments	59,320	65,413	275,789	400,522
Loans	1,171,297	196,730	2,845,898	4,213,925
Unamortized bond issuance costs	963,498	16,222	3,260,502	4,240,222
Total noncurrent assets	223,552,866	25,238,113	415,684,977	664,475,956
Total assets	232,501,832	27,657,661	477,029,915	737,189,408
<b>Liabilities</b>				
Current liabilities:				
Liabilities payable from restricted assets:				
Bonds payable	-	2,085,000	49,930,000	52,015,000
Accrued interest payable on bonds	2,794,875	323,123	11,297,675	14,415,673
Mortgage escrows	6,098,437	-	-	6,098,437
Other	55,653	11,426	117,263	184,342
Total Liabilities payable from restricted assets	8,948,965	2,419,549	61,344,938	72,713,452
Total current liabilities	8,948,965	2,419,549	61,344,938	72,713,452
Non-current liabilities:				
Bonds payable, net of current portion and unamortized premiums and deferred losses on refundings	108,207,044	8,168,843	370,846,591	487,222,478
Total noncurrent liabilities	108,207,044	8,168,843	370,846,591	487,222,478
Total liabilities	117,156,009	10,588,392	432,191,529	559,935,930
<b>Net Assets</b>				
Restricted for:				
Debt service	106,575,960	15,771,476	41,429,277	163,776,713
Bond reserves	8,769,863	1,297,793	3,409,109	13,476,765
Total net assets	\$ 115,345,823	\$ 17,069,269	\$ 44,838,386	\$ 177,253,478

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Statement of Revenue, Expenses, and Changes in Net Assets - Year Ended June 30, 2003**

	Single Family	Home Ownership	Mortgage Revenue	Totals
<b>Operating revenue:</b>				
Pledged revenue:				
Interest on loans	\$ 9,588,314	\$ 1,939,262	\$ 22,620,181	\$ 34,147,757
Income on deposit	786,353	414,682	4,312,511	5,513,546
Other revenue:				
Bond premium amortization	38,510	-	-	38,510
Total operating revenue	10,413,177	2,353,944	26,932,692	39,699,813
<b>Operating expenses</b>				
Bond interest	5,589,750	677,186	22,886,835	29,153,771
Program	316,025	54,356	803,538	1,173,919
Bond issuance cost amortization	40,954	862	199,057	240,873
Other expenses	4,812	3,175	175,901	183,888
Total operating expenses	5,951,541	735,579	24,065,331	30,752,451
Operating income (loss)	4,461,636	1,618,365	2,867,361	8,947,362
Income Before Operating Transfers and Extraordinary Items	4,461,636	1,618,365	2,867,361	8,947,362
Transfers:				
Transfers among programs	29,008	(14,869,118)	14,840,110	-
Transfers to other programs	(3,573,000)	-	-	(3,573,000)
Total transfers	(3,543,992)	(14,869,118)	14,840,110	(3,573,000)
Income (loss) before extraordinary item	917,644	(13,250,753)	17,707,471	5,374,362
Extraordinary item:				
Loss on early extinguishment of debt	-	(16,066)	(335,400)	(351,466)
Increase (decrease) in net assets	917,644	(13,266,819)	17,372,071	5,022,896
Net assets, at beginning of year	114,428,179	30,336,088	27,466,315	172,230,582
Net assets, at end of year	<u>\$ 115,345,823</u>	<u>\$ 17,069,269</u>	<u>\$ 44,838,386</u>	<u>\$ 177,253,478</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Statement of Cash Flows - Year Ended June 30, 2003**

	<b>Single Family</b>	<b>Home Ownership</b>	<b>Mortgage Revenue</b>	<b>Totals</b>
<b>Cash Flows from Operating Activities:</b>				
Receipt of loan payments	\$ 34,574,051	\$ 7,586,381	\$ 71,001,543	\$ 113,161,975
Purchase/origination of new loans	(6,035,127)	-	(44,221,891)	(50,257,018)
Payments to vendors	(151,998)	(22,321)	(657,277)	(831,596)
Net cash provided by (used for) operating activities	28,386,926	7,564,060	26,122,375	62,073,361
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfers among programs	29,008	(14,869,118)	14,840,110	-
Transfers to other programs	(3,573,000)	-	-	(3,573,000)
Proceeds from sale of bonds	-	-	73,000,000	73,000,000
Principal payments on bonds payable	-	-	(6,325,000)	(6,325,000)
Interest payments on bonds payable	(5,589,750)	(743,185)	(22,707,241)	(29,040,176)
Payment on bond issuance costs	-	-	(576,995)	(576,995)
Early retirement of bonds payable	-	(2,300,000)	(34,365,000)	(36,665,000)
Net cash provided (used) for noncapital financing activities	(9,133,742)	(17,912,303)	23,865,874	(3,180,171)
<b>Cash Flows from Investing Activities:</b>				
Income on deposits and investments	819,590	252,627	4,097,286	5,169,503
Net cash provided by (used for) investing activities	819,590	252,627	4,097,286	5,169,503
Net increase (decrease) in cash and cash equivalents	20,072,774	(10,095,616)	54,085,535	64,062,693
Cash and cash equivalents, beginning of year	68,642,461	14,173,636	81,807,809	164,623,906
Cash and cash equivalents, end of year	<u>\$ 88,715,235</u>	<u>\$ 4,078,020</u>	<u>\$135,893,344</u>	<u>\$ 228,686,599</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

**Statement of Cash Flows - Year Ended June 30, 2003**

	Single Family	Home Ownership	Mortgage Revenue	Totals
<b>Reconciliation of Net Operating Income (Loss) to Net Cash Flows Provided by (Used for) Operating Activities:</b>				
Net operating income (loss)	\$ 4,461,636	\$ 1,618,365	\$ 2,867,361	\$ 8,947,362
Adjustments to reconcile net operating income (loss) to net cash flows provided by (used for) operating activities:				
Depreciation	-	-	-	
Bond premium amortization	(38,510)	-	-	(38,510)
Bond issuance cost amortization	40,954	862	199,057	240,873
Bonds interest expense reclassified to non-capital financing activities	5,589,750	677,186	22,886,835	29,153,771
Income on deposits and investments reclassified to investing activities	(786,353)	(414,682)	(4,312,511)	(5,513,546)
Mortgage loan discounts amortization	-	(3,850)	(481)	(4,331)
Mortgage loan principal adjustment	-	-	62	62
Receipt of loan principal payments	23,241,988	5,635,584	48,870,926	77,748,498
Purchase/origination of new loans	(6,035,126)	-	(44,221,892)	(50,257,018)
Change in assets and liabilities:				
Increase (decrease) in accounts receivable	-	-	-	-
Increase (decrease) in accounts payable, accrued expenses and due to grantor	-	-	-	-
Increase (decrease) in mortgage escrows	1,940,903	-	-	1,940,903
Increase (decrease) in other liabilities	(4,111)	(2,526)	(1,632)	(8,269)
Increase (decrease) in accrued interest receivable-loans	(24,201)	53,119	(165,352)	(136,434)
Total adjustments	23,925,294	5,945,693	23,255,012	53,125,999
Net cash provided by (used for) operating activities	<u>\$ 28,386,930</u>	<u>\$ 7,564,058</u>	<u>\$ 26,122,373</u>	<u>\$ 62,073,361</u>

## OTHER FINANCIAL INFORMATION



SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

Federal Grantor/ Program Title	CFDA Number	Total Expenditures	Expenditures to Subrecipients
<b>Department of Housing and Urban Development</b>			
Section 8 - New Construction and Substantial Rehabilitation	14.182	\$ 7,496,648	\$ -
Section 8 - Housing Assistance Payments Program-Special allocations	14.195	72,154,043	-
Home Investment Partnership Program	14.239	11,279,943	364,245
Lower Income Housing Assistance Program - Section 8 - Moderate Rehabilitation	14.856	978,843	79,564
Section 8 - Housing Choice Vouchers	14.871	<u>11,865,071</u>	<u>522,275</u>
Total		<u><u>\$ 103,774,548</u></u>	<u><u>\$ 966,084</u></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.

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**Report on Compliance and 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 the South Carolina State Housing Finance and Development Authority as of and for the year ended June 30, 2003, and have issued our report thereon September 19, 2003. 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.

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 instance of noncompliance that is 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.

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

September 19, 2003

# DeLOACH & WILLIAMSON, L.L.P.

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

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

### Compliance

We have audited the compliance of South Carolina State Housing Finance and Development Authority with the types of compliance requirements described in the *US. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2003. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance with those requirements based on our audit.

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

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

#### Internal Control Over Compliance

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

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

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

*Rebecca E. Williamson, C.C.P.*

September 19, 2003

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2003

**Summary of Auditors' Results:**

Financial Statements:

1. An unqualified opinion dated September 19, 2003, on the financial statements of the Authority for the year ended June 30, 2003 was issued.
2. No reportable conditions related to internal control over financial reporting were noted.
3. No instances of non compliance which were material to the financial statements were found.

Federal Awards:

4. No reportable conditions relating to internal control over compliance resulting from the audit of the major federal award programs are reported.
5. An unqualified opinion on compliance for the major program dated September 19, 2003 was issued.
6. No instances of noncompliance which were material to the financial statements were noted.
7. The major programs of the Authority are as follows:

<u>CFDA</u>	<u>Program Title</u>
14.182	Section 8 New Construction and Substantial Rehabilitation
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 \$3,113,236.
9.	The Authority was determined to be a low-risk auditee.

**Financial Statement Findings:**

None reported.

**Federal Awards Findings and Questioned Costs:**

None reported.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDING

JUNE 30, 2003

**01-2 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.

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 and their work product is reviewed and approved by supervisory personnel.

Current Status: The recommendation was put in place November 2002.

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

**STATUS OF PRIOR AUDIT FINDING**

**JUNE 30, 2003**

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 the audit report for the fiscal year ended June 30, 2002. We determined that the Authority has taken adequate corrective action for the finding that was included in the prior report.