

**SOUTH CAROLINA RESOURCES AUTHORITY  
COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2006**

*State of South Carolina*



*Office of the State Auditor*

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COLUMBIA, S.C. 29201

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September 21, 2006

The Honorable Mark Sanford, Governor  
and  
Members of the South Carolina Resources Authority  
State of South Carolina  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Resources Authority for the fiscal year ended June 30, 2006, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

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

RHGjr/cwc

**SOUTH CAROLINA RESOURCES AUTHORITY**

**TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2006**

	Page
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	2 - 5
<b>FINANCIAL STATEMENTS:</b>	
Statement of net assets	6
Statement of revenues, expenses and changes net assets	7
Statement of cash flows	8 and 9
Notes to financial statements	10 - 18

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying statement of net assets of the South Carolina Resources Authority, (the Authority) as June 30, 2006 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 financial statements of the Authority are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the Authority. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2006 and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include any other agencies, divisions or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2006 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, management of the Authority discovered an error in the recording of the balance owed on a receivable and that errors were made in recording payments received from the State of South Carolina in prior years.

Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Rogers & Laban, PA*

September 12, 2006



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## **SOUTH CAROLINA RESOURCES AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Section of the annual financial report of the South Carolina Resources Authority (the "Authority") presents the analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the financial statements, which follow this section.

### **THE AUTHORITY**

The Authority was created by Act 682 of 1988 of the South Carolina General Assembly as a public instrumentality of the State, codified as the South Carolina Resources Authority Act under Chapter 37 of Title 11 of the South Carolina Code of Laws (the "Act"). The Authority's membership is that of the South Carolina Budget and Control Board, whose membership is comprised of the Governor (who serves as Chairman), the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee.

In adopting the Act, the General Assembly found that there existed a definite need for additional sources with which to finance the then present and future needs of the people of South Carolina for water supply, sewer system, sewage, wastewater treatment facilities or other projects authorized by the General Assembly. The General Assembly further recognized that such needs might be alleviated in part through the authorization to the Authority to encourage the investment of both public and private funds for these purposes and to make loans and grants available to local governments for projects approved by the Authority. Those loans and grants were deemed necessary to promote the general health and welfare of all South Carolinians and as an incentive to foster economic growth, particularly in the rural, less developed areas of the State.

The Authority acts as a conduit to the financing activities of the local entity, but issues its debt on its own behalf. The Authority's debt is secured by obligations of the local entity to the Authority. Revenues generated by operation of the local government projects are utilized to repay the local government's obligation to the Authority

Three issuances of debt totaling \$50.730 million were made under the Act, as follows:

- \$16.810 million South Carolina Resources Authority Series 1989, maturing April, 2019;
- \$25.980 million South Carolina Resources Authority Series 1990, maturing June, 2020; and
- \$7.940 million South Carolina Resources Authority Series 1991, maturing December, 2021.

As of June 30, 2006, there remained outstanding \$3.16 million of the debt originally issued. Effective in October, 1994, the General Assembly enacted legislation that prohibits the Authority from issuing additional bonds except to refund bonds previously issued. Debt issued by the Authority is not a debt of the State, and neither the State's faith and credit nor its taxing power is pledged to the payment of the bonds. Bonds and the interest thereon are payable solely from the revenues generated by projects funded by bond proceeds and by local government bond obligation payments.

The entire local government bond obligations receivable represents the balance due from the Town of New Ellenton. The original amount of the receivable was \$5,025,000, and the local government has made one principal payment in the amount of \$65,000, leaving a principal balance of \$4,960,000. Proceeds from the issuance of the bonds were used to construct a sewer system that has not generated adequate revenues to pay debt service. A court order entered in 1997 provides that as long as the Town deposits set percentages of its revenues from the system with the bond trustee, the trustee agrees not to seek appointment of a receiver for the Town. The Town is not obligated to make any additional payments on the bonds other than those provided under the court order, and the Town's obligation to deposit a percentage of its revenues will terminate on the earlier of payment of the bonds in full or on the final maturity date of June 1, 2019. The Authority has recorded an allowance for doubtful amounts based on the present value of the future projected payments by the Town.

For many years, the State has appropriated funds to supplement payment of debt service on the Authority's obligations. In prior fiscal years, the Authority has recorded those supplemental funds as collections on the local government obligations receivable rather than as supplementary funds appropriated by the State to discharge only the obligations of the Authority. Accordingly, the Authority has restated its local government bond obligations receivable to correctly account for the court order issued in 1997 and to properly record amounts appropriated by the State as supplementary funds to discharge only the obligations of the Authority. Notes 3, 4 and 6 of the Notes to Financial

Statements provide additional information concerning these adjustments and their impact on the financial statements of the Authority.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

- The *Statement of Net Assets* includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.
- All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Retained Earnings*. This statement measures the success of the Authority's operations over the past year and can be used to determine the Authority's profitability and credit-worthiness.
- Information about the Authority's cash receipts and cash payments during the reporting period is reflected in the *Statement of Cash Flows*. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities; and provides information about where cash came from, what cash was used for, and the change in the Authority's cash balance during the reporting period.

## SUMMARY AND COMPARISON OF FINANCIAL RESULTS

Table 1 summarizes the Authority's statement of net assets for the period ending June 30, 2006, and includes comparative data to the period ending June 30, 2005.

Table 1: Summary statement of net assets

	June 30, 2006	June 30, 2005 (restated)	Increase (Decrease)	
			\$	%
<b>Assets</b>				
Current assets	\$ 84,007	\$ 88,848	\$ (4,841)	-5%
Non-current assets	664,570	763,737	(99,167)	-13%
Total assets	<u>748,577</u>	<u>852,585</u>	<u>(104,008)</u>	-12%
<b>Liabilities</b>				
Current liabilities	178,754	170,538	8,216	5%
Non-current liabilities	<u>2,998,647</u>	<u>3,288,377</u>	<u>(289,730)</u>	-9%
Total liabilities	3,177,401	3,458,915	(281,514)	-8%
Net assets	<u>(2,428,824)</u>	<u>(2,606,330)</u>	<u>177,506</u>	-7%
Total liabilities and net assets	<u>\$ 748,577</u>	<u>\$ 852,585</u>	<u>\$ (104,008)</u>	-12%

Overall, the Authority's Net Assets decreased 12%, primarily as a result of early extinguishment of debt. As debt is extinguished, both current and non-current assets are utilized to provide the cash funding needed to repay and discharge the existing debt obligation. Notwithstanding incidental differences, a proportionate decrease in both current and long-term liabilities accompanies early debt extinguishment.

Recognizing that the interest costs of the debt outstanding at both the Authority and the local government levels significantly exceed prevailing rates<sup>1</sup>, the Authority has undertaken a diligent effort to promote long-term savings through early retirement of existing debt. The Authority retired \$130,000 during the period ended June 30, 2006, as a result of such efforts.

<sup>1</sup> Rates on the Authority's current debt range from 7.20% to 7.25%, significantly above current market rates for like-term investment-grade debt.

Virtually all of the Authority's assets are comprised of cash and cash equivalents, receivables resulting from local government obligations, investments, earnings on those investments, and any supplemental funds made available by the State through annual appropriation for the ensuing fiscal year.

The deficit reflected on the Authority's Statement of Net Assets is a result of the Authority having no financial assets other than the local government obligations receivable, supplemental funds from State appropriations, the accounts established under the indenture, and investment earnings on those accounts. Future receipts are dependent on, among other things, future collections from operation of the sewer system and any future supplemental funds made available by the State through annual appropriation. These future receipts do not meet asset recognition criteria under accounting principles generally accepted in the United States of America. Accordingly, the financial statements reflect a deficit arising as a consequence of the full recognition of Authority liabilities, comprised primarily of the outstanding Bonds, without attendant currently recognizable Authority assets.

Table 2 summarizes the Authority's statement of revenues, expenses and changes in net assets for the period ending June 30, 2006, and includes comparative data to the period ending June 30, 2005.

*Table 2: Summary statement of revenues, expenses and changes in net assets*

	June 30, 2006	June 30, 2005 (restated)	Increase (Decrease)	
			\$	%
Operating revenues	\$ 13,420	\$ 343	\$ 13,077	3813%
Operating expenses	255,715	299,568	(43,853)	-15%
Operating income/(loss)	(242,295)	(299,225)	56,930	-19%
Nonoperating revenues - State appropriations	420,000	420,000	-	0%
Net income before extraordinary item	177,705	120,775	56,930	47%
Extraordinary loss on early extinguishment of debt	(199)	(543)	344	-63%
Net income (loss)	177,506	120,232	57,274	48%
Net assets - beginning of year	(2,606,330)	(2,726,562)	120,232	-4%
Net assets - end of year	\$ (2,428,824)	\$ (2,606,330)	\$ 177,506	-7%

As is the case with the Authority's net assets, the Authority's revenues and expenses also reflect the impact of the early extinguishment of debt. Both revenues and operating expenses declined during the period as a result. Additionally, the early extinguishment also created an extraordinary loss of \$199, including unamortized issuance costs and bond discount related to these bonds. Despite these extraordinary expenses, the Authority recognized long-term savings as a result of the early retirement of these debt obligations. Notes 1 and 5 of the Notes to Financial Statements provide additional information regarding the character and treatment of these extraordinary expenses.

#### CAPITAL ASSET AND LONG TERM DEBT ACTIVITY

The Authority has not issued debt subsequent to the Series 1991 bonds described above, and has not, to date, entered into any refinancing or refunding transactions. Current statutory provisions provide only for the issuance of debt to refund existing obligations. The Authority does not presently anticipate the issuance of any additional short- or long-term debt. During the year, the Authority repaid \$280,000 of outstanding bonds payable including the \$130,000 early redemption described above.

#### ECONOMIC FACTORS AND OUTLOOK

The Authority recognizes that prevailing market conditions create an opportunity to minimize long-term interest expense by the continued extinguishment of its currently outstanding debt obligations. It will continue to vigorously pursue expense savings through debt refinancing or extinguishment where practicable.

## CONTACTING THE AUTHORITY

Persons needing additional information concerning this report or otherwise needing to contact the Authority may do so by writing or telephoning F. Richard Harmon, Jr., Senior Assistant State Treasurer, State of South Carolina, 122 Wade Hampton Office Building, Capitol Complex, Columbia, South Carolina 29201; telephone (803) 734-2114; facsimile (803) 734-2039; e-mail [harmr@sto.state.sc.us](mailto:harmr@sto.state.sc.us).

**SOUTH CAROLINA RESOURCES AUTHORITY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2006**

**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 952
Local government bonds obligations receivable, net of allowance for uncollectible amounts - current portion	72,092
Investments	<u>10,963</u>
Total current assets	84,007
 Noncurrent assets:	
Local government bond obligations receivables, net of allowance for uncollectible amounts -net of current portion	661,284
 Bond issuance cost, net of \$332,252 accumulated amortization	<u>3,286</u>
 <b>TOTAL ASSETS</b>	 <b><u><u>\$ 748,577</u></u></b>

**LIABILITIES AND NET ASSETS**

Current liabilities:	
Accrued interest payable	\$ 18,960
Bonds payable, net of \$206 unamortized discounts	<u>159,794</u>
Total current liabilities	178,754
 Noncurrent liabilities:	
Bonds payable, net of \$1,353 unamortized discounts	<u>2,998,647</u>
 <b>TOTAL LIABILITIES</b>	 <b><u>3,177,401</u></b>
 <b>NET ASSETS:</b>	
Unrestricted (deficit)	<u>(2,428,824)</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b><u><u>\$ 748,577</u></u></b>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA RESOURCES AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2006**

<b>Operating revenues:</b>	
Interest/Investment income	\$ 850
Reduction in allowance for uncollectible amounts	<u>12,570</u>
Total revenues	<u>13,420</u>
<b>Operating expenses:</b>	
Amortization of bond issuance costs	244
Interest, including \$210 amortized discounts	247,395
Administrative	<u>8,076</u>
Total operating expenses	<u>255,715</u>
Operating loss before nonoperating revenues and extraordinary item	(242,295)
<b>Nonoperating revenues:</b>	
State appropriations	<u>420,000</u>
Net income before extraordinary item	177,705
Extraordinary loss on early extinguishment of debt	<u>(199)</u>
Net income	177,506
Net assets (deficit), at beginning of year, as restated	<u>(2,606,329)</u>
Net assets (deficit), at end of year	<u><u>\$ (2,428,823)</u></u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA RESOURCES AUTHORITY**

**STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2006**

**CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES:**

Payment of administrative expenses	\$ (8,076)
Net cash flows from (used by) operating activities	<u>(8,076)</u>

**CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES:**

Sale of treasury bills	154,118
Purchase of treasury bills	(134,264)
Principal payments received from local government bond obligations receivable	95,763
Interest received on deposits and investments	850
Net cash flows from investing activities	<u>116,467</u>

**CASH FLOWS FROM (USED BY) NONCAPITAL FINANCING ACTIVITIES:**

State appropriations	420,000
Principal payments made on bonds payable	(280,000)
Bond interest paid	(248,973)
Net cash from (used by) noncapital financing activities	<u>(108,973)</u>

Net increase (decrease) in cash (582)

Cash and cash equivalents at beginning of year 1,534

Cash and cash equivalents at end of year \$ 952

**Reconciliation of net operating income (loss) to net cash used by operating activities:**

Operating income (loss)	\$ (242,295)
Adjustments to reconcile net operating income (loss) to net cash used by operating activities:	
Reduction in allowance for uncollectible amounts	(12,570)
Amortization of bond issuance costs	244
Investment income reclassified to investing activities	(850)
Interest expense reclassified to noncapital financing activities	247,395
Total adjustments	<u>234,219</u>

Net cash used by operating activities \$ (8,076)

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA RESOURCES AUTHORITY**

**STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2006**

NONCASH INVESTING INFORMATION

- a. Interest/investment income received on deposits and investments does not include \$9 amortization of discount on U.S. treasury bills included in interest/investment income.

NONCASH NONCAPITAL FINANCING ACTIVITIES

- b. Bond interest paid does not include \$210 amortization of bond discount included in interest expense.
- c. Unamortized bond discounts of \$64 and unamortized bond issuance costs of \$135 were written off as an extraordinary loss.

## **SOUTH CAROLINA RESOURCES AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

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

##### **General**

The financial statements of the South Carolina Resources Authority (the Authority) were prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental 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 is a public instrument of the State of South Carolina established by the General Assembly in 1988 (in Act 682), Chapter 37, Title 11 of the South Carolina Code of Laws, as amended. In taking that action, the General Assembly found "...a definite need for additional sources from which to finance the present and future needs of the people of South Carolina for the undertakings authorized by this act" (which are predominantly water supply and waste water construction and improvement projects).

Under Act 682, the Authority's role is to issue bonds to provide the funds needed to finance water and sewer projects via the purchasing of local government obligation revenue bonds. If at any time any local government fails to effect the punctual payment of the principal or interest on its local obligations, the State Treasurer shall withhold from the local government sufficient monies from any state appropriation and apply so much as is necessary to make the payment of the principal and/or interest on the local obligation of the government.

The projects are recommended first by the Water Resources Coordinating Council. Its membership includes a Governor's representative; the Commissioner of the Department of Health and Environmental Control; the Director of the South Carolina Department of Natural Resources; the Director of the State Budget and Control Board's Office of Local Government; and the chairmen of the Coordinating Council on Economic Development (a division of the Department of Commerce), the Jobs-Economic Development Authority (JEDA), the Joint Bond Review Committee, the House Ways and Means Committee, and the Senate Finance Committee. The Governor names the chairman of the Council from the membership. Act 682 provides that the Council be assisted in its work by staff from JEDA.

Effective October 1994, the General Assembly enacted legislation that prohibits the Authority from issuing bonds except to refund bonds previously issued.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements.

## **SOUTH CAROLINA RESOURCES AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

The accompanying financial statements present the financial position, results of operations and cash flows solely of the Authority and do not include any other divisions, instrumentalities or any component units of the State of South Carolina.

The Authority's debt is reported and included in the Comprehensive Annual Financial Report of the State of South Carolina as conduit debt.

#### **Fund Accounting**

The Authority uses funds to report on its financial position, the results of its operations and cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions or limitations. Separate accounts are maintained for each fund.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is, in turn, divided into separate "fund types". The fund used by the Authority is a proprietary fund type.

Proprietary funds are used to account for activities similar to those found in private business, where the determination of net income is necessary or useful for sound financial administration. Goods or services from such activities can be provided to outside parties (enterprise funds), to other departments/agencies primarily within the government, or to other governmental units or not-for-profit organizations on a cost reimbursement basis (internal service funds).

The proprietary fund accounts for the activities of the Authority in its capacity to issue its bonds in amounts it determines to be necessary or convenient to provide funds to carry out its purposes and powers and to pay all costs and expenses incurred in connection with the issuance of bonds. Section 11-37-60 of the State of South Carolina Code of Laws, as amended, states that "the total principal amount of bonds outstanding at any one time may not exceed the sum of sixty million dollars".

#### **Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus.

## **SOUTH CAROLINA RESOURCES AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

The proprietary fund is accounted for using the accrual basis of accounting whereby revenue is recognized when earned and expenses are recognized when incurred. Under this method, all assets and liabilities associated with the operation of the fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated by retained earnings components. Retained earnings have been designated for the financing of projects recommended by the Water Resources Coordinating Council, debt service and payment of administrative costs. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Pursuant to Governmental Accounting Standards Board Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Authority has elected to apply only those standards issued by the Financial Accounting Standards Board on or before November 30, 1989.

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

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to know amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

For financial reporting purposes, the Authority classifies cash on deposit in financial institutions and repurchase agreements as cash and cash equivalents. Of its investments meeting the definition of cash equivalents and having maturities at the time of purchase of 3 months or less, the Authority's policy is to classify repurchase agreements and open ended guaranteed investment contracts as cash equivalents in accordance with GASB Statement No. 9.

#### **Local Government Bond Obligations Receivable**

Local government bond obligations receivable consist of obligations due from a local government and are stated at amortized costs. The Authority does not consider these receivables to be investments since they are not holding them for investment purposes and is therefore not required to carry them at fair value as required by GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

#### **Bond Issuance Costs**

Legal, printing and other expenses incurred in the issuance of the Local Government Program Revenue Bonds are being amortized over the life of the related bonds.

## SOUTH CAROLINA RESOURCES AUTHORITY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

#### **Bond Discounts**

Bond discounts on bonds payable are being amortized over the life of the related bonds payable using the effective interest rate method. Amortization on bonds payable is recorded as interest expense.

#### **Classification of Revenues**

The Authority has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the Authority's principal ongoing operations.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include State appropriations.

#### **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 and disclosures. Accordingly, actual results could differ from those estimates.

#### **NOTE 2. DEPOSITS AND INVESTMENTS**

All cash and cash equivalents, investments, and securities lending transactions of the Authority are under the control of the Treasurer's Office who, by law, has sole authority for the investment of such funds.

The following schedule reconciles the amounts reported in the statement of net assets to the notes.

Statements		Notes	
Cash and cash equivalents	\$ 952	Deposits	\$ 172
Investments	10,963	Investments	11,743
Totals	<u>\$ 11,915</u>		<u>\$ 11,915</u>

#### **Deposits**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. As prescribed by statute, the State Treasurer is the custodian of all deposits and is responsible for securing all deposits held by banks or savings and loan associations. These deposits must be secured by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against loss in the event of insolvency or liquidation of the institution or for any other cause. All deposits are required to be insured by the Federal Deposit Insurance Corporation up to \$100,000 or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian.

The Authority does not maintain any deposits denominated in a foreign currency.

**SOUTH CAROLINA RESOURCES AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Investments**

Investments consist of the following at June 30, 2006:

\$11,000 U.S. Treasury bill maturing July 27, 2006	\$10,963
yielding 4.6% at June 30, 2006	
Treasury Tri-Party repo	780
Total	<u>\$ 11,743</u>

The Authority has not adopted a formal investment policy. The State Treasurer has full power to invest and reinvest all funds of the Authority in any of the following:

- (1) obligations of the United States, its agencies and instrumentalities;
- (2) obligations of the State of South Carolina or any of its political subdivisions;
- (3) obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank;
- (4) obligations of any corporation within the United States, if such obligations bear any of the three highest ratings of at least two nationally recognized rating services;
- (5) certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) and held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; but this collateral is not required to the extent the certificates of deposit are insured by an agency of the federal government; and,
- (6) repurchase agreements when collateralized by securities of the type described in (1) and (2) and held by a third party as escrow agent or custodian, of a market value not less the repurchase agreement so collateralized, including interest.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. At June 30, 2006, all of the Authority's investments were insured and registered.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using effective duration. Effective duration is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 50 basis point change in interest rates. It takes into account that expected cash flows will fluctuate as interest rates change and provides a measure of risk that changes proportionately with market rates. The following schedule presents the Authority's interest rate risk.

	Fair Value	Effective Duration
U. S. Government	\$ 10,963	0.07
Repurchase Agreement	780	0.00
Total	<u>\$ 11,743</u>	
Total effective duration		0.065

## **SOUTH CAROLINA RESOURCES AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

#### **NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Authority. The investment policy for credit quality of debt securities states that securities must bear an investment grade rating from at least two of the national rating agencies. Credit quality of cash reserves must carry a rating of A1/P1/F1 or D1 from at least two nationally recognized rating services. In the event that the rating of a security falls below investment grade, that security may continue to be held contingent upon an evaluation of the longer term investment merits of the security. Credit risk ratings are not required for obligations of the U.S. government or those obligations explicitly guaranteed by the U.S. government. As of June 30, 2006, the Authority's rated debt investments as rated by Standard & Poor's consisted of Treasury Tri-Party Repurchase agreements with a credit rating of A-1.

Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. At June 30, 2006, the Authority had approximately 93% of its investments in a U.S. Treasury bill, and had 7% of its investments in an overnight repurchase agreement with the Bank of New York, which repurchase agreement was fully collateralized by United States Treasury obligations.

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At June 30, 2006, the Authority did not have any deposits or investments denominated in foreign currencies.

#### **NOTE 3. LOCAL GOVERNMENT BONDS OBLIGATIONS RECEIVABLE**

Local government bonds obligations receivable represents the balance due from the Town of New Ellenton with an effective interest rate of approximately 7.19% with final maturity date of June 2020. The original amount of the receivable was \$5,025,000 and the local government has made one principal payment in the amount of \$65,000 leaving a principal balance of \$4,960,000. The funds were used to construct a sewer system and the system has not generated adequate revenues to pay the debt service. A court order entered into in 1997 provides that as long as the Town deposits set percentages of its revenues from the system with the Trustee, the Trustee agrees not to seek appointment of a receiver for the Town. The Town is not obligated to make any additional payments on the bonds other than those provided under the court order and the court order provides that the Town will no longer have to deposit a percentage of its revenues once the bonds have been paid in full or upon the final maturity date of June 1, 2020. The Authority has recorded an allowance for uncollectible amounts of \$4,246,624 based on the present value of the future projected payments by the Town.

**SOUTH CAROLINA RESOURCES AUTHORITY**

**NOTES TO FINANCIAL STATEMENT  
JUNE 30, 2006**

**NOTE 4. BONDS PAYABLE**

Local Government Program Revenue Bonds payable at June 30, 2006 are comprised of the following individual issues:

<u>Description</u>	<u>Unpaid Balance June 30, 2006</u>
\$25,980,000 Series 1990 bonds due in annual principal installments ranging from \$150,000 to \$395,000 through June 2019. Interest rates range from 7.20% to 7.25% and interest is paid semiannually.	\$3,160,000
Less, unamortized bond discounts	<u>(1,559)</u>
Net carrying value	<u>\$ 3,158,441</u>

The State of South Carolina has been appropriating funds to the Authority to enable the Authority to make part of the payments due to the Trustee under this obligation since adequate funds were not received as discussed in Note 3. The payments have been used to fund the remaining part of the annual principal and interest payments and to replenish the debt service reserve fund. Through June 30, 2006, the State has paid a total of approximately \$5,090,000 with \$420,000 being paid in the current fiscal year. There is no provision in the court order requiring this State payment; however, the State has appropriated \$420,000 in fiscal-year 2007.

At the option of the Authority, the Series 1990 bonds may be redeemed prior to maturity in whole at any time or if in part on any interest payment date after June 1, 2000. The redemption dates ranges through June 1, 2020, and the redemption price is at par.

Annual requirements to amortize outstanding bond indebtedness as of June 30, 2006 are as follows:

	Principal	Interest	Total
For the year ended June 30:			
2007	\$ 160,000	\$228,748	\$388,748
2008	170,000	217,227	387,227
2009	180,000	204,988	384,988
2010	195,000	192,027	387,027
2011	210,000	177,988	387,988
2012-2016	1,295,000	638,725	1,933,725
2017-2019	950,000	135,575	1,085,575
Total	<u>\$ 3,160,000</u>	<u>\$ 1,795,278</u>	<u>\$ 4,955,278</u>

The Authority is obligated for its bond issues, but only from and to the extent of the trust estate. Bonds of the Authority do not constitute a debt of the State and neither the State's faith and credit or its taxing power is pledged for their payment.

## **SOUTH CAROLINA RESOURCES AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

The trust estate property for securing the performance of the bond obligations of the Authority consist of:

- a. All cash and securities now or hereafter held in the funds and accounts created and established under the indentures and the investment earnings thereon and all proceeds thereof (except to the extent transferred from such funds and accounts from time to time in accordance with the Indentures);
- b. The local obligations and the earnings thereon and all proceeds thereof, including all local obligation payments, subject to the transfer, sale and other disposition of local obligations and local obligation payments from time to time in accordance with the indentures; and
- c. Any and all property from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder by the Authority or by anyone on its behalf or with its written consent to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof.

The \$199 extraordinary loss on early extinguishment of debt is attributable to the early redemption of \$130,000 of bonds.

#### **NOTE 5. RELATED PARTY TRANSACTIONS**

The Authority has received some custodial, investment and related services from the State Treasurer's Office at no cost. During the year ended June 30, 2006, no other State agencies provided the Authority or received from the Authority any other significant services.

The Authority received a \$420,000 appropriation from the State to pay the debt service during the year.

#### **NOTE 6. PRIOR PERIOD ADJUSTMENT**

The Authority restated its Local Government Bonds Obligations Receivable to correctly account for the court order issued in 1997 as discussed in Note 3. In prior years, the Authority recorded the funds received from the State each year that were used as discussed in Note 4 as collections on the Local Government Bonds Obligations Receivable instead of a State Appropriation. The impact on the Statement of Net Assets at June 30, 2005 is as follows:

**SOUTH CAROLINA RESOURCES AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

ASSETS	<u>As Previously Reported</u>	<u>Increase (Decrease)</u>	<u>Restated Balances</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 1,534	\$ -	\$ 1,534
Local government bond obligations receivable	146,327	(89,830)	56,497
Investments	30,817		30,817
Accrued interest receivable	20,748	(20,748)	-
Other receivables	1,024	(1,024)	-
Total current assets	<u>200,450</u>	<u>(111,602)</u>	<u>88,848</u>
<b>Noncurrent assets:</b>			
Local government bond obligations receivables	3,263,657	(2,503,585)	760,072
Bond issuance cost	<u>3,665</u>		<u>3,665</u>
TOTAL ASSETS	<u>\$ 3,467,772</u>	<u>\$ (2,615,187)</u>	<u>\$ 852,585</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Accrued interest payable	\$ 20,748	\$ -	\$ 20,748
Bonds payable	<u>149,790</u>		<u>149,790</u>
Total current liabilities	<u>170,538</u>	<u>-</u>	<u>170,538</u>
<b>Noncurrent liabilities:</b>			
Bonds payable	<u>3,288,377</u>		<u>3,288,377</u>
TOTAL LIABILITIES	<u>3,458,915</u>		<u>3,458,915</u>
<b>NET ASSETS:</b>			
Unrestricted (deficit)	<u>8,857</u>	<u>(2,615,187)</u>	<u>(2,606,330)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,467,772</u>	<u>\$ (2,615,187)</u>	<u>\$ 852,585</u>

The impact on the statement of revenues, expenses and changes in net assets for the year ended June 30, 2005 was to decrease the operating income by \$341,423 and increase the net income by \$\$78,577.