

SOUTH CAROLINA RESOURCES AUTHORITY
COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

State of South Carolina



Office of the State Auditor

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August 31, 2009

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, 2009, 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
YEAR ENDED JUNE 30, 2009

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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, 2009 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, 2009 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, 2009 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.

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

August 25, 2009

SOUTH CAROLINA RESOURCES AUTHORITY
YEAR ENDED JUNE 30, 2009

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, 2009. 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, 2009, all of the debt originally issued had been retired with the exception of \$5,000 principal amount of the Series 1990 bonds. 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, 2020. 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 appropriated funds to supplement payment of debt service on the Authority's obligations. The Authority may elect to redeem the Series 1990 bonds prior to maturity in whole at any time or in part on any interest payment date after June 1, 2000. The State made provision in its 2007-08 appropriation act to effect such a redemption, including the entire principal then outstanding and interest accrued to the date of redemption, in an amount not to exceed \$3,500,000, provided that such redemption shall not discharge the local obligation or in any way relieve the Town of New Ellenton of its requirement to make court-ordered payments to the Authority. The Authority used the state appropriation and other funds to effect a redemption in the amount of \$2,865,000 on December 1, 2007. The Authority has funds to cover all future administrative, interest and debt payments on the remaining \$5,000 outstanding when due.

Notes 3 and 4 of the Notes to Financial Statements provide additional information concerning these amounts 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 Net Assets. 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 reflects cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities; and provides information about the sources, uses and changes in balance of the Authority's cash 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, 2009, and includes comparative data to the period ending June 30, 2008.

Table 1: Summary statement of net assets

	June 30, 2009	June 30, 2008	Increase (Decrease)	
			Difference	%
Assets				
Current assets	\$ 354,485	\$ 288,256	\$ 66,229	23%
Non-current assets	<u>555,601</u>	<u>595,416</u>	<u>(39,815)</u>	-7%
Total assets	<u><u>910,086</u></u>	<u><u>883,672</u></u>	<u><u>26,414</u></u>	3%
Liabilities				
Current liabilities	30	30	-	0%
Non-current liabilities	<u>5,000</u>	<u>5,000</u>	-	0%
Total liabilities	5,030	5,030	-	0%
Net assets	<u>905,056</u>	<u>878,642</u>	<u>26,414</u>	3%
Total liabilities and net assets	<u>\$ 910,086</u>	<u>\$ 883,672</u>	<u>\$ 26,414</u>	3%

Overall, the Authority's Net Assets increased 3%, primarily as a result of a decrease in local government obligations paid by the Town to the Authority that have not yet been appropriated or expended, and a reduction in an allowance for uncollectible amounts owed by the Town to the Authority.

Virtually all of the Authority's assets are comprised of cash and cash equivalents and earnings thereon, other receivables primarily from the trustee relating to local government obligations, and any supplemental funds made available by the State through annual appropriation for the ensuing fiscal year. The State made no supplemental funds available to the Authority during the most recently completed fiscal year.

Table 2 summarizes the Authority's statement of revenues, expenses and changes in net assets for the period ending June 30, 2009, and includes comparative data to the period ending June 30, 2008.

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

	June 30, 2009	June 30, 2008	Increase (Decrease)	
			Difference	%
Operating revenues	\$ 36,560	\$ 56,480	\$ (19,920)	-35%
Operating expenses	<u>10,146</u>	<u>99,012</u>	<u>(88,866)</u>	-90%
Operating income (loss)	26,414	(42,532)	68,946	-162%
Non-operating revenues - State appropriations	<u>-</u>	<u>2,694,635</u>	<u>(2,694,635)</u>	-100%
Net income before special items	26,414	2,652,103	(2,625,689)	-99%
Special items	<u>-</u>	<u>(4,190)</u>	<u>4,190</u>	-100%
Net income	26,414	2,647,913	(2,621,499)	-99%
Net assets (deficit) - beginning of year	<u>878,642</u>	<u>(1,769,271)</u>	<u>2,647,913</u>	-150%
Net assets - end of year	<u>\$ 905,056</u>	<u>\$ 878,642</u>	<u>\$ 26,414</u>	3%

The decline in the Authority's operating revenues reflects the limited resources available consisting primarily of earnings and limited amounts available from the Town to retire the Authority's obligations. Operating expenses declined during the period as a result of lower interest cost associated with early extinguishment of debt in the prior fiscal year. Special items in the prior fiscal year included unamortized issuance costs and bond discounts related to the early extinguishment of debt.

CAPITAL ASSET AND LONG TERM DEBT ACTIVITY

The Authority has no capital assets, and has not issued debt subsequent to the Series 1991 bonds described above. 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. As described above, the Authority effected a redemption in the prior fiscal year in the amount of \$2,865,000 using the state appropriation and other funds.

ECONOMIC FACTORS AND OUTLOOK

As noted above, the Authority has funds available to cover all future administrative, interest and debt payments on the remaining \$5,000 outstanding when due.

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 rick.harmon@sto.sc.gov.

SOUTH CAROLINA RESOURCES AUTHORITY
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 STATEMENT OF NET ASSETS

Assets	
Current assets	
Cash and cash equivalents	\$ 153,969
Local government bond obligations receivable - current portion	74,738
Other receivables	<u>125,778</u>
Total current assets	354,485
Non-current assets	
Local government bond obligations receivable - net of current portion	<u>555,601</u>
Total assets	<u><u>\$ 910,086</u></u>
Liabilities and net assets	
Current liabilities	
Accrued interest payable	<u>\$ 30</u>
Total current liabilities	30
Non-current liabilities	
Bonds payable	<u>5,000</u>
Total liabilities	<u>5,030</u>
Net assets	
Restricted	<u>905,056</u>
Total liabilities and net assets	<u><u>\$ 910,086</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA RESOURCES AUTHORITY
YEAR ENDED JUNE 30, 2009

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Operating revenues	
Investment income	\$ 747
Change in allowance and amortization of discount for uncollectible amounts	<u>35,813</u>
Total operating revenues	<u>36,560</u>
Operating expenses	
Interest	363
Administrative	<u>9,783</u>
Total operating expenses	<u>10,146</u>
Operating/net income	26,414
Net assets, at beginning of year	<u>878,642</u>
Net assets, at end of year	<u>\$ 905,056</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA RESOURCES AUTHORITY
YEAR ENDED JUNE 30, 2009
STATEMENT OF CASH FLOWS

Cash flows from (used by) operating activities	
Payment of administrative expenses	\$ (9,783)
Net cash flows from (used by) operating activities	<u>(9,783)</u>
Cash flows from (used by) investing activities	
Interest received on deposits and investments	<u>747</u>
Net cash flows from (used by) investing activities	<u>747</u>
Cash flows from (used by) noncapital financing activities	
Bond interest paid	<u>(363)</u>
Net cash from (used by) noncapital financing activities	<u>(363)</u>
Net increase (decrease) in cash	(9,399)
Cash and cash equivalents at beginning of year	<u>163,368</u>
Cash and cash equivalents at end of year	<u>\$ 153,969</u>
Reconciliation of net operating income to net cash used by operating activities	
Operating income	\$ 26,414
Adjustments to reconcile net operating income to net cash used by operating activities	
Change in allowance and amortization of discount for uncollectible amounts	(35,813)
Investment income reclassified to investing activities	(747)
Interest expense reclassified to noncapital financing activities	<u>363</u>
Total adjustments	<u>(36,197)</u>
Net cash used by operating activities	<u>\$ (9,783)</u>

Noncash activities

 Other receivables were increased by \$74,645 from payments made by local government to third party trustee

See accompanying Notes to Financial Statements.

SOUTH CAROLINA RESOURCES AUTHORITY
YEAR ENDED JUNE 30, 2009

NOTES TO FINANCIAL STATEMENTS

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.

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.

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

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YEAR ENDED JUNE 30, 2009

NOTES TO FINANCIAL STATEMENTS

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.

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 statement of net assets. Net assets have been restricted for the financing of projects recommended by the 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.

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YEAR ENDED JUNE 30, 2009

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known 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.

Other Receivables

Other receivables represent amounts collected by the trustee from the Town of New Ellenton that have not been remitted to the Authority.

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. The State made no appropriations to the Authority during the fiscal year ended June 30, 2009.

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.

SOUTH CAROLINA RESOURCES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS

All cash and cash equivalents and investments of the Authority are under the control of the Office of State Treasurer which, 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.

	Notes		Statements
Deposits	\$ 559	Cash and cash equivalents	\$ 153,969
Investments	153,410		
Totals	\$ 153,969		\$ 153,969

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 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.

Investments

Investments consist of the following at June 30, 2009:

	Fair Value
Short Term Investments:	
U.S. Treasuries	\$ 144,000
Repurchase Agreements	9,410
Total	\$ 153,410

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;

SOUTH CAROLINA RESOURCES AUTHORITY
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- 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, 2009, 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
Short Term Investments:		
U.S. Treasuries	\$ 144,000	0.08
Repurchase Agreements	9,410	-
Total	\$ 153,410	0.08

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, 2009, the Authority's rated debt investments consisted of U.S. Treasury securities and Treasury Tri-Party Repurchase agreements, the underlying securities of which are obligations of the U.S. government.

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, 2009, the Authority had approximately 94% of its investments in a U.S. Treasury bill, and had 6% 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.

SOUTH CAROLINA RESOURCES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At June 30, 2009, 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 a 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. The court order provides that the Town will no longer be required 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. Provided the Town maintains compliance with its deposit requirements under the court order, the Town's payment obligations to the Authority are discharged in accordance with the Town's original debt amortization schedule. Based on this court order, the outstanding principal on the Town's debt is \$2,730,000 at June 30, 2009.

The Authority has estimated future payments by the Town based on historical collections, and estimates that the present value of those future payments is \$630,339. The amount estimated to be collected in the next fiscal year is \$74,738 and is reflected on the Authority's Statement of Net Assets as a current asset and described as Local government bond obligations receivable – current portion. The amount estimated to be collected in all years subsequent to next fiscal year is \$555,601 and is reflected on the Authority's Statement of Net Assets as a non-current asset and described as Local government bond obligations receivable – net of current portion. The Authority has recorded an allowance for uncollectible amounts of \$2,099,661 based on the present value of the future projected payments by the Town.

The change in the estimate of the present value of future payments by the Town from the prior year and the amortization of the discount to present value is \$35,813, and is reflected on the Authority's Statement of Activities as an operating revenue and described as Change in allowance and amortization of discount for uncollectible amounts.

At June 30, 2009, the trustee held a total of \$125,778 in amounts paid by the Town to the trustee which are pledged and due but have not yet been remitted to the Authority. The Authority has recorded these amounts as other receivables on the statement of net assets since they are presently available to satisfy only its debt service obligations pursuant to the bond documents and the court order. Because the Authority has satisfied all of its debt service obligations by either early redeeming or setting aside in escrow sufficient funds for its current and future debt service obligations, the State legislature must appropriate these funds for any alternative purpose.

NOTE 4. BONDS PAYABLE

Local Government Program Revenue Bonds payable at June 30, 2009 are comprised of the following individual issues:

	Unpaid balance at June 30, 2009
\$25,980,000 Series 1990 bonds with remaining principal due June 1, 2019 with interest payments at 7.25% due semiannually	\$ <u>5,000</u>
	<u>\$ 5,000</u>

In prior fiscal years, the State of South Carolina appropriated 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 were used to fund the remaining part of the annual principal and interest payments, replenish the debt service reserve fund, and effect redemptions as described below. Through June 30, 2009, the State had paid a total of \$8,203,631, with no amounts having being paid in the current fiscal year. There is no provision in the court order requiring State payments.

The Series 1990 bonds are scheduled to mature in ordinary course on June 1, 2019. At the option of the Authority, the Series 1990 bonds may be redeemed prior to maturity in whole at any time or in part on any interest payment date after June 1, 2000. The redemption dates range through June 1, 2019, and the redemption price is at par. At June 30, 2009, a total of \$25,975,000 of the Authority's Series 1990 debt has been retired through maturity in ordinary course or early redemption, with all early redemptions having been applied to the full retirement of all maturities through and including the June 1, 2019 maturity. A total of \$5,000 remains outstanding for the June 1, 2019 maturity. The Authority has funds available to cover all future administrative, interest and debt payments on the remaining \$5,000 outstanding when due. Accordingly, annual requirements to amortize the outstanding bond indebtedness remaining as of June 30, 2009 are as follows:

For the year ended				
June 30	Principal	Interest	Total debt service	
2010	\$ -	\$ 363	\$	363
2011	-	363		363
2012	-	363		363
2013	-	363		363
2014	-	363		363
2015-2019	<u>5,000</u>	<u>1,813</u>		<u>6,813</u>
	<u>\$ 5,000</u>	<u>\$ 3,628</u>	<u>\$</u>	<u>8,628</u>

The Authority is obligated for its debt, 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.

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

- 1) 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);

- 2) 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
- 3) 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.

NOTE 5. RELATED PARTY TRANSACTIONS

The Authority has received custodial, investment and related services from the Office of State Treasurer at no cost. During the year ended June 30, 2009, no other State agencies provided the Authority or received from the Authority any other significant services.