

SOUTH CAROLINA RESOURCES AUTHORITY

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

State of South Carolina



Office of the State Auditor

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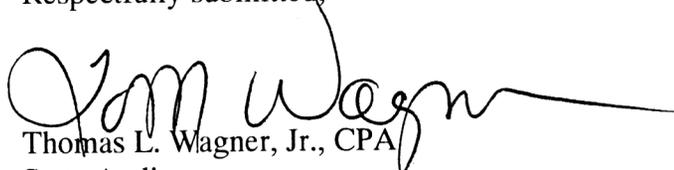
September 20, 2004

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, 2004, was issued by Rogers & Laban, PA., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

SOUTH CAROLINA RESOURCES AUTHORITY

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YEAR ENDED JUNE 30, 2004**

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INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA
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, 2004 and the related statements of revenues, expenses, and changes in fund 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, 2004 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2004 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 27, 2004



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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, 2004. 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, 2004, there remained outstanding \$3.920 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 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.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the Authority 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, 2004, and includes comparative data to the period ending June 30, 2003.

Table 1: Summary statement of net assets

	June 30, 2004	June 30, 2003	Increase (Decrease)	
			\$	%
Assets				
Current assets	\$ 202,766	\$ 813,652	\$ (610,886)	-75%
Non-current assets	3,751,332	7,290,724	(3,539,392)	-49%
Total assets	<u>3,954,098</u>	<u>8,104,376</u>	<u>(4,150,278)</u>	-51%
Liabilities				
Current liabilities	163,365	287,955	(124,590)	-43%
Non-current liabilities	3,777,986	7,741,151	(3,963,165)	-51%
Total liabilities	3,941,351	8,029,106	(4,087,755)	-51%
Net assets	<u>12,747</u>	<u>75,270</u>	<u>(62,523)</u>	-83%
Total liabilities and net assets	<u>\$ 3,954,098</u>	<u>\$ 8,104,376</u>	<u>\$ (4,150,278)</u>	-51%

Overall, the Authority's Net Assets decreased 83%, 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.

Virtually all of the Authority's assets are comprised of cash and cash equivalents, receivables resulting from local government obligations for repayment of debt, investments, and earnings on those investments. Approximately 98% of the Authority's current and long-term assets are comprised of local government receivables.

Table 2 summarizes the Authority's statement of revenues, expenses and changes in net assets for the period ending June 30, 2004, and includes comparative data to the period ending June 30, 2003.

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

	June 30, 2004	June 30, 2003	Increase (Decrease)	
			\$	%
Operating revenues	\$ 447,896	\$ 1,273,145	\$ (825,249)	-65%
Operating expenses	423,432	1,150,545	(727,113)	-63%
Operating income	24,464	122,600	(98,136)	-80%
Extraordinary loss on early extinguishment of debt	86,987	212,845	(125,858)	-59%
Net income (loss)	(62,523)	(90,245)	27,722	-31%
Net assets - beginning of year	<u>75,270</u>	<u>165,515</u>	<u>(90,245)</u>	-55%
Net assets - end of year	<u>\$ 12,747</u>	<u>\$ 75,270</u>	<u>\$ (62,523)</u>	-83%

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 \$86,987, including \$13,650 in premium due for early redemption, \$41,666 of unamortized issuance costs, and \$31,671 of unamortized bond discount related to these bonds. Despite these extraordinary expenses, both the Authority and local governments recognized long-term savings as a result of the early retirement of these debt obligations. Please refer to Notes 1 and 5 of the Notes to Financial Statements for additional information regarding the character and treatment of these extraordinary expenses.

The Authority's cash flows reflect increases in cash incident to the early debt extinguishment discussed above. Both net cash provided and net cash used increased proportionately, and are significantly higher than the prior period as a result of the funds received and assets released to fund the debt retirement.

CAPITAL ASSET AND LONG TERM DEBT ACTIVITY

Recognizing that the interest costs of the debt outstanding at both the Authority and the local government levels significantly exceed prevailing rates, the Authority has undertaken a diligent effort to promote long-term savings by encouraging refinancing or other early retirement of all existing debt. The Authority retired \$3,940,000 during the period ended June 30, 2004, as a result of such efforts.

The Authority 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.

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 coordinated opportunities with local government obligors to achieve 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.

SOUTH CAROLINA RESOURCES AUTHORITY

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,053
Local government bond obligations receivable, net of \$3,691 unamortized discounts - current portion	136,309
Investments	40,774
Accrued interest receivable	<u>23,630</u>
 Total current assets	 <u>202,766</u>

Noncurrent assets:

Local government bond obligations receivables, net of \$32,983 unamortized discounts - net of current portion	3,747,017
Bond issuance costs, net of \$331,223 accumulated amortization	<u>4,315</u>
 Total noncurrent assets	 <u>3,751,332</u>
 Total assets	 <u><u>\$ 3,954,098</u></u>

LIABILITIES

Current liabilities:

Accrued interest payable	\$ 23,529
Bonds payable, net of \$164 unamortized discounts	<u>139,836</u>
 Total current liabilities	 <u>163,365</u>

Noncurrent liabilities:

Bonds payable, net of \$2,014 unamortized discounts	<u>3,777,986</u>
 Total liabilities	 <u>3,941,351</u>

NET ASSETS

Unrestricted	<u>12,747</u>
 Total net assets	 <u>12,747</u>
 Total liabilities and net assets	 <u><u>\$ 3,954,098</u></u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA RESOURCES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**

YEAR ENDED JUNE 30, 2004

OPERATING REVENUES

Interest/investment income, including \$391,454 from local government bond obligations receivable	\$ 434,246
Call premium received	<u>13,650</u>
Total revenues	<u>447,896</u>

OPERATING EXPENSES

Amortization of bond issuance costs	912
Interest, including \$3,489 amortized discounts	402,021
Administrative	<u>20,499</u>
Total operating expenses	<u>423,432</u>
Operating income before extraordinary item	24,464
Extraordinary loss on early extinguishment of debt	<u>(86,987)</u>
Net loss	(62,523)
Net assets at beginning of year	<u>75,270</u>
Net assets at end of year	<u><u>\$ 12,747</u></u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA RESOURCES AUTHORITY
STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Payment of administrative expenses	\$ (20,499)
Net cash (used) by operating activities	<u>(20,499)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Principal payments made on bonds payable	(4,085,000)
Call premium paid	(13,650)
Bond interest paid	<u>(436,447)</u>
Net cash (used) by noncapital financing activities	<u>(4,535,097)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of treasury bills	257,004
Purchase of treasury bills	(248,978)
Principal payments received from local government bond obligations receivable	3,646,000
Call premium received	13,650
Interest/investment income received on deposits and investments	22,951
Interest payments received on local government bond obligations receivable	<u>421,935</u>
Net cash provided by investing activities	<u>4,112,562</u>

Net decrease in cash	(443,034)
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Cash and cash equivalents at beginning of year	<u>445,087</u>
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Cash and cash equivalents at end of year	<u><u>\$ 2,053</u></u>
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Reconciliation of operating income before extraordinary item to net cash (used) by operating activities:

Operating income	\$ 24,211
Adjustments to reconcile operating income to net cash (used) by operating activities:	
Amortization of bond issuance costs	912
Interest expense reclassified to noncapital financing activities	402,021
Investment income reclassified to investing activities	<u>(447,643)</u>

Net cash (used) by operating activities	<u><u>\$ (20,499)</u></u>
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See accompanying Notes to Financial Statements.

SOUTH CAROLINA RESOURCES AUTHORITY

**STATEMENTS OF CASH FLOWS – INTERNAL SERVICE FUND - CONTINUED
YEAR ENDED JUNE 30, 2004**

NONCASH INVESTING INFORMATION

- a. Interest/investment income received on deposits and investments do not include \$8 amortization of discount on U.S. treasury bills included in interest/investment income.
- b. Interest received on local government bond obligations receivable does not include \$4,211 amortization of discount included in interest/investment income.

NONCASH NONCAPITAL FINANCING ACTIVITIES

- c. Bond interest paid does not include \$3,489 amortization of bond discount which is included in interest expense.
- d. Unamortized bond discounts of \$31,671 and unamortized bond issuance costs of \$41,666 were written off as an extraordinary loss.

SOUTH CAROLINA RESOURCES AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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. It's 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.

SOUTH CAROLINA RESOURCES AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

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 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".

SOUTH CAROLINA RESOURCES AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

Investments

Investments, consisting of U.S. Treasury bills are stated at amortized costs. Purchases and sales are accounted for on the trade date. Amortization of discounts is included in investment income.

SOUTH CAROLINA RESOURCES AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

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 than the amount of the repurchase agreement so collateralized, including interest.

Credit Risks

Credit risks can be associated with the issuer of a security, with a financial institution holding deposits, or with a party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one-investment type or with any one counterparty.

Credit risk categories are concerned with custodial credit risk. For deposits, this is the risk that the entity will not be able to recover deposits if the financial institution fails or to recover the value of collateral that are in the possession of an outside party if the counterparty to the transaction fails. For investments, credit risk is the risk that the government entity will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails.

For the fiscal year ended June 30, 2004, the Authority classified investments into three risk categories. Category 1 includes investments that were insured or registered or for which the securities were held by the Authority or by its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities were held by the counterparty'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 counterparty, or by its trust department or agent but not in the Authority's name. For the fiscal year ended June 30, 2003, there was no activity in either Category 2 or 3.

SOUTH CAROLINA RESOURCES AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Local Government Bond Obligations Receivable

Local government bond obligations receivable consist of obligations due from various local governments 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 associated with the issuance of the Local Government Program Revenue Bonds, Series 1989, 1990, and 1991 are being amortized over the life of the related bonds.

Bond Discounts

Bond discounts on local government bond obligations receivable and bonds payable are being amortized over the life of the related bond receivable or payable using the effective interest rate method. Amortization on bonds receivable is recorded as investment income and amortization on bonds payable is recorded as interest expense.

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

Cash and cash equivalents consist of demand deposits. The Authority conducts all its banking and investment transactions with its depository bank and trustee financial institutions.

SOUTH CAROLINA RESOURCES AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2. DEPOSITS (CONTINUED)

All deposits with financial institutions are required to be insured or collateralized with securities held by the State or its agent in the Authority's name. At June 30, 2004, all deposits were in compliance with this requirement.

NOTE 3. INVESTMENTS

Investments consist of the following at June 30, 2004:

\$29,000 U.S. treasury bill maturing November 26, 2004 yielding 1.43% at June 30, 2004	\$ 28,840
\$12,000 U.S. treasury bill maturing November 26, 2004 yielding 1.37% at June 30, 2004	<u>11,934</u>
Total	<u>\$ 40,774</u>

Included in the definition of investments for credit risk classification are guaranteed investment contracts which paid guaranteed rates from 7.75% to 8.5% and had open ended maturity dates. All guaranteed investment contracts were cashed out by year-end.

NOTE 4 LOCAL GOVERNMENT BONDS OBLIGATIONS RECEIVABLE

Local government bonds obligations receivable represent the balance due from one entity with an effective interest rate of approximately 7.19% with final maturity date of June 2020.

Face amount	\$3,920,000
Less unamortized discounts	<u>(36,674)</u>
Net carrying value	3,883,326
Less amount due within one year	<u>(136,309)</u>
Long-term portion of local government bond obligations receivable	<u>\$3,747,017</u>

SOUTH CAROLINA RESOURCES AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 LOCAL GOVERNMENT BOND OBLIGATIONS RECEIVABLE (CONTINUED)

Interest/investment income includes \$33,320 of discount amortization attributable to these receivables including \$29,109 attributable to early redemption.

The receivable with a balance of \$3,920,000 as of June 30, 2004 due from the Town of New Ellenton is in default. 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 State of South Carolina has been making part of the payments due to the Trustee under this obligation. The payments have been used to fund the remaining part of the annual principal and interest payments and to replenish the debt service revenue fund which the Town was required to maintain. Through June 30, 2004, the State has paid a total of approximately \$4,250,000 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 considers itself morally obligated to cover the shortfall. The State has appropriated \$420,000 in fiscal year 2005.

During the current fiscal year, the Authority received \$3,516,000 from bonds receivable that were paid off early.

NOTE 5. BONDS PAYABLE

Local Government Program Revenue Bonds payable at June 30, 2004 are comprised of the following individual issues:

<u>Description</u>	<u>Unpaid Balance June 30, 2004</u>
\$25,980,000 Series 1990 bonds due in annual principal installments ranging from \$140,000 to \$395,000 through June 2020. Interest rates range from 7.00% to 7.25% and interest is paid semiannually.	3,920,000
Less, unamortized bond discounts	<u>(2,178)</u>
Net carrying value	<u>\$ 3,917,822</u>

SOUTH CAROLINA RESOURCES AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 5. BONDS PAYABLE: (CONTINUED)

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 from June 1, 2000 to June 1, 2020, and the redemption price (expressed as a percentage of par) ranges from 102 to 100.

Annual requirements to amortize outstanding bond indebtedness as of June 30, 2004 are as follows:

	Principal	Interest	Total
For the year ended June 30:			
2005	\$ 140,000	\$ 283,563	\$ 423,563
2006	150,000	273,623	423,623
2007	160,000	262,823	422,823
2008	170,000	251,303	421,303
2009	180,000	239,062	419,062
2010-2014	1,405,000	978,652	2,383,652
2015-2019	1,320,000	506,412	1,826,412
2020-2021	395,000	28,637	423,637
Total	\$ 3,920,000	\$ 2,824,075	\$ 6,744,075

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, 2004**

NOTE 5. BONDS PAYABLE: (CONTINUED)

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 \$86,987 extraordinary loss on early extinguishment of debt is attributable to the early redemption of \$1,050,000 of Series 1989 bonds, \$2,730,000 of Series 1990 bonds, and \$160,000 in Series 1991 bonds and includes \$41,666 of unamortized bond issuance costs and \$31,671 of unamortized bond discounts related to these bonds and, therefore, written off, and \$13,650 of call premium paid.

NOTE 6. RELATED PARTY TRANSACTIONS

The Authority received audit services at no cost from the South Carolina State Auditor's Office, a part of the State Budget and Control Board, during the year ended June 30, 2004.

The Authority has received some custodial, investment and related services from the State Treasurer's Office at no cost.

The South Carolina Jobs Economic Development Authority (JEDA) provided project investigation and research services to the Authority at no cost in prior years. JEDA also provided application-processing services. Costs for these services were included in bond issuance costs.

During the year ended June 30, 2004, no other State agencies provided the Authority or received from the Authority any other significant services.