

September 11, 1998

The Honorable David M. Beasley, 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, 1998, was issued by Finch, Hamilton & Co., LLC., 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,

Edgar A. Vaughn, Jr., CPA
State Auditor

EAV/tdc

AUDITED FINANCIAL STATEMENTS

SOUTH CAROLINA RESOURCES AUTHORITY
Columbia, South Carolina

June 30, 1998

CONTENTS

Independent Auditors' Report.....	Page	3
Balance Sheet.....		4
Statement of Revenues, Expenses and Changes in Retained Earnings.....		5
Statement of Cash Flows.....		6
Notes to Financial Statements.....		7 - 13

INDEPENDENT AUDITORS' REPORT

Edgar A. Vaughn, Jr., CPA, State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Resources Authority, (Athe Authority) as of and for the year ended June 30, 1998. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements of the South Carolina Resources Authority are intended to present the financial position, results of operations, and cash flows of only the portion of the funds of the State of South Carolina that are attributable to the transactions of the Authority and do not include any other divisions, instrumentalities or any 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 South Carolina Resources Authority as of June 30, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

August 31, 1998

BALANCE SHEET

PROPRIETARY FUND TYPE - INTERNAL SERVICE FUND

SOUTH CAROLINA RESOURCES AUTHORITY

June 30, 1998

ASSETS

CURRENT ASSETS

Cash and cash equivalents--Note B	\$ 2,108,359
Investments, net of \$34,402 unamortized discounts--Note C	1,167,598
Accrued interest receivable	<u>540,914</u>

TOTAL CURRENT ASSETS 3,816,871

INVESTMENTS, net of \$403,942 unamortized discounts--Note C 40,207,058

BOND ISSUANCE COSTS, net of \$148,588 accumulated amortization 409,612

TOTAL ASSETS \$ 44,433,541

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accrued interest payable	\$ 441,023
Bonds payable, net of \$34,715 unamortized discounts--Note D	<u>1,230,285</u>

TOTAL CURRENT LIABILITIES 1,671,308

BONDS PAYABLE, net of \$384,154 unamortized discounts--Note D 42,270,846

TOTAL LIABILITIES 43,942,154

FUND EQUITY

Retained earnings	<u>491,387</u>
-------------------	----------------

TOTAL LIABILITIES AND FUND EQUITY \$ 44,433,541

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

PROPRIETARY FUND TYPE--INTERNAL SERVICE FUND

SOUTH CAROLINA RESOURCES AUTHORITY

Year Ended June 30, 1998

Operating revenues	
Interest, including \$37,798 amortized discounts	<u>\$ 3,337,136</u>
Operating expenses	
Amortization of bond issuance costs	18,607
Interest, including \$38,823 amortized discounts	3,249,718
Administrative	<u>19,540</u>
	<u>TOTAL OPERATING EXPENSES</u>
	<u>3,287,865</u>
	NET OPERATING INCOME
	49,271
Retained earnings at beginning of year	<u>442,116</u>
	RETAINED EARNINGS AT END OF YEAR
	<u>\$ 491,387</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

PROPRIETARY FUND TYPE - INTERNAL SERVICE FUND

SOUTH CAROLINA RESOURCES AUTHORITY

Year Ended June 30, 1998

Cash in-flows (out-flows) from operating activities	
Payment of administrative expenses	\$ (19,540)
NET CASH USED BY OPERATING ACTIVITIES	(19,540)
Cash in-flows (out-flows) from investing activities	
Principal payments received on investments	1,142,000
Interest payments received on investments	<u>3,313,563</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,455,563
Cash in-flows (out-flows) from noncapital financing activities	
Principal payments on bonds payable	(1,200,000)
Bond interest paid	<u>(3,220,955)</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(4,420,955)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,068
Cash and cash equivalents at beginning of year	<u>2,093,291</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,108,359</u>
Reconciliation of net operating income to net cash used by operating activities:	
Net operating income	\$ 49,271
Adjustments to reconcile net operating income to net cash used by operating activities--increase (decrease) in cash flows	
Amortization of bond issuance costs	18,607
Interest income reclassified to investing activities	(3,337,136)
Interest expense reclassified to noncapital financing activities	<u>3,249,718</u>
Total adjustments	<u>(68,811)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (19,540)</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SOUTH CAROLINA RESOURCES AUTHORITY

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The financial statements of the South Carolina Resources Authority were prepared in conformity with generally accepted accounting principles as applied to governmental entities. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is the State of South Carolina. The Authority was declared by the General Assembly to be a body politic and corporate and a public instrumentality of the State. Authority membership consists of members of the State Budget and Control Board, sitting *ex-officio*. The State has determined that the Authority is part of the primary government but it is not legally separate. Therefore, the Authority is not a component unit.

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. . .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. That Council'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, the Jobs-Economic Development Authority (JEDA), the Joint Board 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.

NOTES TO FINANCIAL STATEMENTS

SOUTH CAROLINA RESOURCES AUTHORITY

June 30, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Reporting Entity--Continued

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 funds are not included in the Comprehensive Annual Financial Report of the State of South Carolina.

Basis of Presentation

The financial statements present all funds of the Authority. The financial statements of the Internal Service Fund include the balance sheet, statement of revenues expenses and changes in retained earnings and the statement of cash flows.

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).

NOTES TO FINANCIAL STATEMENTS

SOUTH CAROLINA RESOURCES AUTHORITY

June 30, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Fund Accounting--Continued

The internal service 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 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

For financial reporting purposes, the Authority classifies cash on deposit in financial institutions and repurchase agreements as cash and cash equivalents. Repurchase agreements are classified as cash equivalents in accordance with Governmental Accounting Standards Board Statement #9 as they are highly liquid securities which present an insignificant risk of change in values due to changes in interest rates and they have original maturities of three months or less.

Investments

Investments, consisting of local government obligation revenue bonds and repurchase agreements are stated at fair market value in accordance with GASB-31. Purchases and sales are accounted for on the trade date.

No provision for possible losses due to a decline in market values of securities is considered necessary as market value and carrying value are not significantly different.

NOTES TO FINANCIAL STATEMENTS

SOUTH CAROLINA RESOURCES AUTHORITY

June 30, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Credit Risks

Credit risk 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, 1998, 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, 1998, there was no activity in either Category 2 or 3.

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 using the straight-line method over the life of the related bonds.

Bond Discounts

Bond discounts are being amortized over the life of the related bonds purchased or issued using the effective interest method. Amortization on investment bonds is recorded as interest income and that on bonds payable 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.

NOTES TO FINANCIAL STATEMENTS

SOUTH CAROLINA RESOURCES AUTHORITY

June 30, 1998

NOTE B - CASH AND CASH EQUIVALENTS AND DEPOSITS

Cash and cash equivalents and deposits are:

Demand deposits	\$ 240
Repurchase agreements--See Note C	<u>2,108,119</u>
	<u>\$ 2,108,359</u>

Except for bond related transactions, the Authority conducts all its banking and investment transactions with its depository bank and its trustee financial institutions.

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, 1998, all deposits were in compliance with this requirement.

NOTE C - INVESTMENTS

Investments are:

Local government obligation revenue bonds with effective interest rates ranging from 6.358% - 8.154% and final maturity dates ranging from June 2010 to December 2021.	\$ 41,813,000
Less, amount representing unamortized discounts	<u>(438,344)</u>
	<u>\$ 41,374,656</u>
Maturing within one year	\$ 1,202,000
Maturing after one year	<u>40,611,000</u>
	<u>\$ 41,813,000</u>

Carrying value and market values at June 30, 1998 are not significantly different.

Carrying value and market value for investments in repurchase agreements which are classified within cash equivalents on the balance sheet are generally not significantly different.

NOTES TO FINANCIAL STATEMENTS

SOUTH CAROLINA RESOURCES AUTHORITY

June 30, 1998

NOTE D - BONDS PAYABLE

Local Government Program Revenue Bonds payable at June 30, 1998 are comprised of the following individual issues:

\$16,810,000 Series 1989 bonds due in annual principal installments ranging from \$245,000 to \$ 1,130,000 through April 1, 2019. Interest rates vary from 7.10% to 7.625% paid semiannually (effective interest rate approximately 7.67%). \$ 14,310,000

\$25,980,000 Series 1990 bonds due in annual principal installments ranging from \$60,000 to \$1,715,000 through June 2020. Interest rates vary from 6.00% to 7.25% paid semiannually (effective interest rate approximately 7.18%). 22,940,000

\$7,940,000 Series 1991 bonds due in annual principal installments ranging from \$65,000 to \$555,000 through December 2021. Interest rates vary from 5.0% to 6.75% paid semiannually (effective interest rate approximately 6.32%). 6,670,000

Less, unamortized bond discounts 43,920,000
(418,869)

Net carrying value \$ 43,501,131

Annual requirements to amortize outstanding bond indebtedness as of June 30, 1998 are as follows:

	Principal	Interest
For the year ended June 30:		
1999	\$ 1,265,000	\$ 3,140,965
2000	1,345,000	3,055,993
2001	1,440,000	2,962,676
2002	1,560,000	2,861,795
2003	1,645,000	2,751,875
Thereafter	<u>36,665,000</u>	<u>23,628,744</u>
Total	<u>\$ 43,920,000</u>	<u>\$ 38,402,048</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 nor its taxing power is pledged to their payment.

NOTES TO FINANCIAL STATEMENTS

SOUTH CAROLINA RESOURCES AUTHORITY

June 30, 1998

NOTE D - BONDS PAYABLE--Continued

The trust estate property for securing the performance of the 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.

NOTE E - RELATED PARTY TRANSACTIONS

- a. The Authority has received some custodial, investment and related services from the State Treasurer's Office at no cost.
- b. The South Carolina Jobs Economic Development Authority (JEDA) provides project investigation and research services to the Authority at no cost. In connection with the sale/purchase of Revenue Bonds, JEDA also provides application processing services. Costs for these services are included in bond issue costs.
- c. During the year ended June 30, 1998, no other State agencies provided the Authority or received from the Authority any other significant services.