

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA
DEPARTMENT OF COMMERCE
COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT**

Year Ended June 30, 1999

State of South Carolina



Office of the State Auditor

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THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

October 4, 1999

The Honorable James H. Hodges, Governor
and
Mr. Charles S. Way, Jr., Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the Division of Savannah Valley Development of the South Carolina Department of Commerce for the fiscal year ended June 30, 1999, was issued by Wildman & Richards, LLP, 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 cursive script that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/jap

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
FINANCIAL STATEMENTS
Year Ended June 30, 1999**

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

August 19, 1999

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

We have audited the accompanying financial statements of the Division of Savannah Valley Development of the South Carolina Department of Commerce (the SVD) as of June 30, 1999, and for the year then ended, as listed in the table of contents. The SVD financial statements are the responsibility of the SVD's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements for the Savannah Lakes Regional Loan Fund, a component unit of the SVD, which are presented in a discrete column in the accompanying financial statements. Those financial statements were audited by other auditors whose report thereon dated September 10, 1999 has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Savannah Lakes Regional Loan Fund, is based solely on the report of other auditors.

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

As described in Note 1 to the financial statements, the financial statements of the SVD are intended to present the financial position, results of operations, and cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the SVD. These financial statements referred to above include the financial activities of the Savannah Lakes Regional Loan Fund, a component unit of the SVD. These financial statements do not include other funds, enterprises or component units of the Department of Commerce or the State. These financial statements are not intended to present fairly the financial position of the State of South Carolina primary government or financial reporting entity or of the South Carolina Department of Commerce and the results of either's operations and cash flows of their proprietary fund types in conformity with generally accepted accounting principles.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the SVD at June 30, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 1999, on our consideration of the SVD's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

WILDMAN & RICHARDS, LLP
Certified Public Accountants

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
BALANCE SHEET - PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNIT
June 30, 1999**

| | <u>Proprietary Fund Type Enterprise</u> | <u>Totals Primary Entity (Memorandum Only)</u> | <u>Component Unit Savannah Lakes Regional Loan Fund</u> | <u>Totals Reporting Entity (Memorandum Only)</u> |
|---|---|--|---|--|
| ASSETS | | | | |
| Unrestricted current assets: | | | | |
| Cash and cash equivalents (note 3) | \$ 842,248 | \$ 842,248 | \$ 322,063 | \$ 1,164,311 |
| Short-term investments (note 3) | 0 | 0 | 140,000 | 140,000 |
| Notes receivable, net of allowance for uncollectible loans (note 5) | 0 | 0 | 0 | 0 |
| Interest receivable on deposits | 2,026 | 2,026 | 280 | 2,306 |
| Capital improvement bond proceeds receivable (note 4) | <u>767,359</u> | <u>767,359</u> | <u>0</u> | <u>767,359</u> |
| Total unrestricted current assets | <u>1,611,633</u> | <u>1,611,633</u> | <u>462,343</u> | <u>2,073,976</u> |
| Restricted current assets: | | | | |
| Cash and cash equivalents: | | | | |
| Note payable debt service and sinking funds (note 5) | <u>3,239,862</u> | <u>3,239,862</u> | <u>0</u> | <u>3,239,862</u> |
| Total restricted current assets | <u>3,239,862</u> | <u>3,239,862</u> | <u>0</u> | <u>3,239,862</u> |
| Total current assets | <u>4,851,495</u> | <u>4,851,495</u> | <u>462,343</u> | <u>5,313,838</u> |
| Unrestricted non-current assets: | | | | |
| Work-in-process, net of allowance to reduce carrying value to estimated net realizable value (note 7) | 956,874 | 956,874 | 0 | 956,874 |
| Notes receivable, net of current portion above (note 5) | <u>16,239,221</u> | <u>16,239,221</u> | <u>0</u> | <u>16,239,221</u> |
| Total non-current assets | <u>17,196,095</u> | <u>17,196,095</u> | <u>0</u> | <u>17,196,095</u> |
| Property and equipment: | | | | |
| Land, net of \$63,318 valuation allowance (note 1) | 1 | 1 | 0 | 1 |
| Vehicle | 14,590 | 14,590 | 0 | 14,590 |
| Less accumulated depreciation | <u>(14,590)</u> | <u>(14,590)</u> | <u>0</u> | <u>(14,590)</u> |
| Total property and equipment | <u>1</u> | <u>1</u> | <u>0</u> | <u>1</u> |
| Total assets | <u>\$ 22,047,591</u> | <u>\$ 22,047,591</u> | <u>\$ 462,343</u> | <u>\$ 22,509,934</u> |

(Continued)

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
BALANCE SHEET - PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNIT
June 30, 1999**

| | <u>Proprietary Fund Type Enterprise</u> | <u>Totals Primary Entity (Memorandum Only)</u> | <u>Component Unit Savannah Lakes Regional Loan Fund</u> | <u>Totals Reporting Entity (Memorandum Only)</u> |
|--|---|--|---|--|
| LIABILITIES AND FUND EQUITY | | | | |
| Current liabilities payable from unrestricted current assets: | | | | |
| Note proceeds payable to McCormick County (note 5) | \$ 135,387 | \$ 135,387 | \$ 0 | \$ 135,387 |
| Lake Russell project escrow liability (note 7) | 39,375 | 39,375 | 0 | 39,375 |
| Accounts payable - related party (note 11) | <u>0</u> | <u>0</u> | <u>6,008</u> | <u>6,008</u> |
| Total current liabilities payable from unrestricted current assets | <u>174,762</u> | <u>174,762</u> | <u>6,008</u> | <u>180,770</u> |
| Current liabilities payable from restricted current assets: | | | | |
| Special tax fund liability (note 5) | 569,644 | 569,644 | 0 | 569,644 |
| Interest payable | <u>541,307</u> | <u>541,307</u> | <u>0</u> | <u>541,307</u> |
| Total current liabilities payable from restricted assets | <u>1,110,951</u> | <u>1,110,951</u> | <u>0</u> | <u>1,110,951</u> |
| Total current liabilities | <u>1,285,713</u> | <u>1,285,713</u> | <u>6,008</u> | <u>1,291,721</u> |
| Long-term liabilities payable from restricted assets: | | | | |
| Notes payable (note 5) | <u>16,239,221</u> | <u>16,239,221</u> | <u>0</u> | <u>16,239,221</u> |
| Total long-term liabilities | <u>16,239,221</u> | <u>16,239,221</u> | <u>0</u> | <u>16,239,221</u> |
| Total liabilities | <u>17,524,934</u> | <u>17,524,934</u> | <u>6,008</u> | <u>17,530,942</u> |
| Fund equity: | | | | |
| Contributed capital - from government (note 6) | 4,509,110 | 4,509,110 | 1,020,000 | 5,529,110 |
| Retained earnings: | | | | |
| Reserved for notes payable debt service and sinking funds | 2,128,911 | 2,128,911 | 0 | 2,128,911 |
| Unreserved deficit (note 12) | <u>(2,115,364)</u> | <u>(2,115,364)</u> | <u>(563,665)</u> | <u>(2,679,029)</u> |
| Total retained earnings(deficit) | <u>13,547</u> | <u>13,547</u> | <u>(563,665)</u> | <u>(550,118)</u> |
| Total fund equity | <u>4,522,657</u> | <u>4,522,657</u> | <u>456,335</u> | <u>4,978,992</u> |
| Total liabilities and fund equity | <u>\$ 22,047,591</u> | <u>\$ 22,047,591</u> | <u>\$ 462,343</u> | <u>\$ 22,509,934</u> |

The accompanying notes are an integral part of these statements.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS -
PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNIT
For the year ended June 30, 1999**

| | Proprietary Fund Type <u>Enterprise</u> | Totals Primary Entity (Memorandum Only) | <u>Component Unit</u> Savannah Lakes Regional Loan Fund | Totals Reporting Entity Memorandum Only) |
|--|---|--|--|---|
| Operating revenues: | | | | |
| Rent recovery (note 8) | \$ 60,000 | \$ 60,000 | \$ 0 | \$ 60,000 |
| Loan loss recoveries (note 5) | <u>0</u> | <u>0</u> | <u>15,750</u> | <u>15,750</u> |
| Total operating revenue | <u>60,000</u> | <u>60,000</u> | <u>15,750</u> | <u>75,750</u> |
| Operating expenses: | | | | |
| Infrastructure grant expense (notes 4, 7, and 11) | 442,179 | 442,179 | 0 | 442,179 |
| Provision for loss on work in process (note 7) | 829,184 | 829,184 | 0 | 829,184 |
| Legal and accounting fees | 53,658 | 53,658 | 1,993 | 55,651 |
| Repairs and maintenance (note 9) | 43,044 | 43,044 | 0 | 43,044 |
| Salaries and benefits (note 11) | 26,510 | 26,510 | 0 | 26,510 |
| Management fees (note 11) | 0 | 0 | 6,008 | 6,008 |
| Advertising | 9,158 | 9,158 | 0 | 9,158 |
| Office expense | 187 | 187 | 16 | 203 |
| Miscellaneous | 182 | 182 | 0 | 182 |
| Bank charges | <u>0</u> | <u>0</u> | <u>1,551</u> | <u>1,551</u> |
| Total operating expenses | <u>1,404,102</u> | <u>1,404,102</u> | <u>9,568</u> | <u>1,413,670</u> |
| Operating income (loss) | (1,344,102) | (1,344,102) | 6,182 | \$ (1,337,920) |
| Non-operating revenues (expenses): | | | | |
| Interest income on notes receivable (note 5) | 1,186,040 | 1,186,040 | 0 | 1,186,040 |
| Interest income from deposits and short-term investments | 256,881 | 256,881 | 19,677 | 276,558 |
| Interest expense (note 5) | <u>(1,186,040)</u> | <u>(1,186,040)</u> | <u>0</u> | <u>(1,186,040)</u> |
| Total non-operating revenues (expenses) | <u>256,881</u> | <u>256,881</u> | <u>19,677</u> | <u>276,558</u> |
| Net income (loss) | (1,087,221) | (1,087,221) | 25,859 | (1,061,362) |
| Retained earnings (deficit), beginning of year | <u>1,100,768</u> | <u>1,100,768</u> | <u>(589,524)</u> | <u>511,244</u> |
| Retained earnings(deficit), end of year (note 12) | <u>\$ 13,547</u> | <u>\$ 13,547</u> | <u>\$ (563,665)</u> | <u>\$ (550,118)</u> |

The accompanying notes are an integral part of these statements.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
AND DISCRETELY PRESENTED COMPONENT UNIT
For the year ended June 30, 1999**

| | Proprietary Fund Type Enterprise | Totals Primary Entity (Memorandum Only) | Component Unit Savannah Lakes Regional Loan Fund | Totals Reporting Entity (Memorandum Only) |
|---|--|--|---|--|
| Cash flows from operating activities: | | | | |
| Operating income (loss) | \$ (1,344,102) | \$ (1,344,102) | \$ 6,182 | \$(1,337,920) |
| Adjustments to reconcile net operating income (loss) to net cash provided by operating activities: | | | | |
| Loan loss recoveries | 0 | 0 | (15,750) | (15,750) |
| Provision for loss on work in process | 829,184 | 829,184 | 0 | 829,184 |
| Changes in assets - (increase) decrease in: | | | | |
| Capital improvement bond proceeds receivable | 30,825 | 30,825 | 0 | 30,825 |
| Escrow proceeds receivable | 100,000 | 100,000 | 0 | 100,000 |
| Changes in liabilities - increase (decrease) in: | | | | |
| Escrow funds payable | 39,375 | 39,375 | 0 | 39,375 |
| Accounts payable | (15,473) | (15,473) | 0 | (15,473) |
| Accounts payable - related party | 0 | 0 | 366 | 366 |
| Special tax fund liability | <u>138,833</u> | <u>138,833</u> | <u>0</u> | <u>138,833</u> |
| Net cash provided (used) by operating activities | <u>(221,358)</u> | <u>(221,583)</u> | <u>(9,202)</u> | <u>(230,560)</u> |
| Cash flows from non-capital financing activities: | | | | |
| Proceeds from long-term borrowing under notes payable | 2,423,517 | 2,423,517 | 0 | 2,423,517 |
| Interest payments on notes payable | <u>(1,105,256)</u> | <u>(1,105,256)</u> | <u>0</u> | <u>(1,105,256)</u> |
| Net cash provided (used) by non-capital financing activities | <u>1,318,261</u> | <u>1,318,261</u> | <u>0</u> | <u>1,318,261</u> |
| Cash flows from capital and related financing activities: | | | | |
| Disbursements for additions to work-in-process | <u>(936,561)</u> | <u>(936,561)</u> | <u>0</u> | <u>(936,561)</u> |
| Net cash provided(used)by capital and related financing activities | <u>(936,561)</u> | <u>(936,561)</u> | <u>0</u> | <u>(936,561)</u> |
| Cash flows from investing activities: | | | | |
| Collections of note receivable principal | 0 | 0 | 15,750 | 15,750 |
| Loan proceeds distributed | (2,354,135) | (2,354,135) | 0 | (2,354,135) |
| Interest received on notes receivable | 1,186,040 | 1,186,040 | 0 | 1,186,040 |
| Interest received on deposits and short-term investments | <u>260,337</u> | <u>260,337</u> | <u>19,699</u> | <u>280,036</u> |
| Net cash provided (used) by investing activities | <u>(907,758)</u> | <u>(907,758)</u> | <u>35,449</u> | <u>(872,309)</u> |
| Net cash and cash equivalents increase (decrease) for year | (747,416) | (747,416) | 26,247 | (721,169) |
| Cash and cash equivalents, beginning of year | <u>4,829,526</u> | <u>4,829,526</u> | <u>295,816</u> | <u>5,125,342</u> |
| Cash and cash equivalents, end of year | <u>\$ 4,082,110</u> | <u>\$ 4,082,110</u> | <u>\$ 322,063</u> | <u>\$ 4,404,173</u> |

Supplementary disclosures:

Note proceeds payable to McCormick County were \$135,387 at June 30, 1999.

Component unit loan loss recoveries were \$15,750 in fiscal year 1999 on a note previously determined to be uncollectible.

In accordance with Government Accounting Standards Board Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and No. 9, *Reporting Cash Flows*, cash and cash equivalents of the SVD at June 30, 1999 include \$6,846 unrealized gains, which are also included in interest received on deposits and investments in the investing activities section of the statement of cash flows. Comparable information is not available for the SLRLF.

The accompanying notes are an integral part of these statements.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 1999**

1. BASIS OF PRESENTATION, DESCRIPTION OF FUNDS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The core of a financial reporting entity is generally a primary government which has a separately elected governing body. A financial reporting entity includes not only a primary government but also its component units, legally separate organizations for which the primary government is considered to be financially accountable. In turn, component units may include component units.

An organization other than a primary government may, however, serve as a nucleus for a reporting entity when it issues separate financial statements. Such separate financial statements should include component units meeting inclusion criteria.

Among criteria used to determine whether an entity is financially accountable, and should therefore be included as a component unit, are whether a legally separate entity is fiscally dependent on the primary entity, and whether the financial statements would be misleading if the unit were excluded.

Accordingly, these financial statements include the Division of Savannah Valley Development of the South Carolina Department of Commerce as a primary entity issuing separate financial statements and its component unit, the Savannah Lakes Regional Loan Fund.

The Division of Savannah Valley Development of the South Carolina Department of Commerce (the SVD), known prior to July 1, 1993 as the Savannah Valley Authority, is a budgetary unit of the State of South Carolina. The SVD was originally established by Section 13-9-10 of the Code of Laws of South Carolina, as amended by Act 456, 1992, to develop and promote the Savannah River basin area of the State. Code Section 13-1-620, item q, which became effective July 1, 1993, requires the SVD to assess charges and assessments for the use of its facilities and services sufficient to provide for payment of all its expenses.

Through the fiscal year ended June 30, 1993, the SVD (then known as the Savannah Valley Authority) was governed by a board of directors whose members were appointed by the Governor, with the advice and consent of the Senate. Effective July 1, 1993, as part of the restructuring of South Carolina government, the board was abolished and the Authority became the Division of Savannah Valley Development of the South Carolina Department of Commerce (DOC). The Restructuring Act, as codified in Code Section 13-1-620, provides that the SVD succeeds to all powers and duties of the Authority.

The financial statements of the SVD are included in the Comprehensive Annual Financial Report of the State of South Carolina which is the primary government. The SVD is subject to State laws for State agencies unless specifically exempted. Through the fiscal year ended June 30, 1994, the SVD received an annual appropriation from the State. The SVD received no state appropriation for the year ended June 30, 1999.

The Savannah Lakes Regional Loan Fund (SLRLF) has been included as a discretely presented component unit of the SVD. Information about the SLRLF is presented in a separate column so that the primary entity can be distinguished from its component unit and to emphasize that it is legally separate from the SVD. SLRLF information is included in the reporting entity totals on the financial statements.

The SLRLF was incorporated in 1990 pursuant to an agreement between the South Carolina Jobs-Economic Development Authority (JEDA) and the SVD. The SLRLF is a non-profit corporation whose purpose is to promote economic development in the Savannah Lakes Region of South Carolina by establishing and administering a regional revolving loan fund. The fund is governed by a six-member board of directors, three of whom represent the SVD.

Under terms of an agreement between JEDA and the SVD, the SVD contributed \$1,020,000 to capitalize the fund while JEDA provides administrative services. Either JEDA or the SVD can terminate the agreement upon sixty days notice. If the agreement is terminated, the SVD is entitled to any SLRLF assets which are not committed to loans.

Complete financial statements for the SLRLF may be obtained at the entity's administrative office, 1201 Main Street, Columbia, South Carolina.

Basis of Presentation and Description of Funds

The financial statements of the SVD are presented in accordance with generally accepted accounting principles applicable to state and local government units as recommended by the Governmental Accounting Standards Board (GASB). Such standards require governments to use funds and account groups to report their financial positions and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government 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 general ledger accounts are maintained for each fund. In the accompanying financial statements, funds having similar characteristics have been combined by fund type, and transactions have been reported by fund type.

Proprietary Fund

The SVD uses only one fund category, proprietary, within which it maintains one fund type, enterprise. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In accordance with Government Accounting Standards Board statement No. 20, the government applies all FASB statements and interpretations issued prior to November 30, 1989 in accounting and reporting for its proprietary operations. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The Savannah Valley Development Fund is used to account for the activities of the SVD. Its primary sources of revenue are fees, rents, charges and assessments for use of its facilities and services.

Significant Accounting Policies

Basis of Accounting

Proprietary fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated the operation of such funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Budget Policy

For the year ended June 30, 1999, the SVD received no State General Fund appropriation from the General Assembly. However, the 1998-99 Appropriations Acts authorized the SVD's expenditure of other funds. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent cash on hand with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's cash management pool, and cash on deposit with commercial banks.

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

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The SVD records and reports its deposits in the general deposit account at cost. The SVD reports its deposits in the special deposit accounts at fair value. Interest earned by the SVD's special accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the SVD's accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the SVD's percentage ownership in the pool. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 3.

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

For funds not held by the State Treasurer, the SVD considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Interest Income from Deposits and Short-term Investments

Interest income from deposits and short-term investments includes interest earnings received, realized gains and losses, and unrealized gains and losses resulting from the change in fair value of investments in the State's internal cash management pool.

Fixed Assets

Assets purchased by the SVD are recorded at cost except for the valuation allowance for the railroad right-of-way discussed below. When development projects (see below) are completed, they are reclassified from work-in-process to the appropriate fixed assets category. Assets held at July 1, 1992 when the SVD was reclassified as an enterprise fund were recorded at cost, less depreciation that should have been recorded from the time the assets were placed in service, and the net amount was included in contributed capital. In the year ended June 30, 1998, all SVD equipment and furniture except one vehicle was transferred to the South Carolina Department of Commerce. Depreciation of the vehicle was computed using the straight-line method based on an estimated useful life of five years.

Allowance for Losses on Real Estate

Valuation allowances are provided for real estate held for development when the net realizable value of the property is less than its cost. An allowance has been established to reflect the potential net realizable value of an abandoned railroad right-of-way which the SVD owns.

In 1983, the SVD acquired the right-of-way and fee simple title to five railroad stations totaling approximately 194 acres in McCormick and Abbeville counties. The purchase price was paid from SVD funds and from funds provided by the Federal Railroad Banking Association. Title to the right-of-way is vested in the SVD with the stipulation that the land must be used for public transportation. Should any or all of the right-of-way be sold, seventy percent of the sale proceeds revert to the Federal Railroad Banking Association.

The \$63,319 cost has been reduced by a \$63,318 allowance which reflects the net proceeds the SVD would receive from a sale and the limited use to which the SVD may put this land.

Land Development Costs, Development Expenses and Work-in-Process

The SVD acts as a regional development agency and may acquire, hold, use, improve, lease or sell any real or personal property. Since costs for the SVD's various development projects are directly identifiable with specific properties, they are capitalized at cost if it is probable that the SVD will acquire the property. If it is not probable that the SVD will acquire the property, costs associated with a project are expensed. Until an asset is completed and placed in service, it is classified as work-in-process. Valuation allowances are provided when the net realizable value of property associated with a project is less than the accumulated cost of that project.

Bad Debt Expense

The SVD uses the allowance method of recognition of losses on loans receivable and other receivables based on identification of loans and receivables expected to be uncollectible.

Risk Management

The SVD is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, and errors and omissions.

The SVD pays insurance premiums to certain other State agencies to cover such risks which may occur in normal operations. These agencies promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settled claims did not exceed coverage for the past three years.

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

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles and watercraft (inland marine);
4. Torts;
5. Natural disasters

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property and automobile liability. The IRF purchases insurance for aircraft coverage. The IRF's rates are determined actuarially.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond year end are recorded as prepaid items.

Restricted Assets

Amounts being held in various cash and cash equivalent accounts to repay the Authority's notes payable to the State Insurance Reserve Fund (see note 5) is limited by applicable loan covenants.

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.

Fund Equity

Contributed capital and retained earnings are the two components of the SVD's proprietary fund equity.

Contributed capital represents permanent fund capital. Contributed capital of the SVD consists of assets of governmental funds transferred to the proprietary fund and contributed governmental funds restricted to capital asset acquisition of construction.

Retained earnings reflects the accumulated earnings of the SVD enterprise funds and is segregated between its reserved and unreserved components. The SVD reports a reserved account for notes payable debt service in accordance with the terms of the master note agreement (see note 5). The reserved balance represents amounts accumulated in restricted assets accounts less current liabilities payable therefrom. Unreserved retained earnings are not legally restricted for any specific purpose.

Income Taxes

As an agency of the State of South Carolina, the SVD, is exempt from income taxes.

Memorandum Only-Total Columns

Total columns on the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles.

Summary of Significant Accounting Policies of the Component Unit

Basis of Presentation

The accounting policies of the SLRLF conform to GAAP applicable to governmental business-like activities prescribed by the GASB. This component unit applies all applicable GASB pronouncements and, in accordance with GASB statement No. 20, has elected to apply only those applicable FASB pronouncements issued on or before November 30, 1989 which are not in conflict with GASB standards.

The SLRLF uses one fund category, proprietary, within which it maintains one fund type, enterprise.

Basis of Accounting

The SLRLF employs the accrual basis of accounting in the maintenance of accounting records and the preparation of financial statements.

Cash Equivalents

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

Investments

The SLRLF's financial statements include no information regarding the value at which investments are reported.

Contributed Capital

Contributed capital of the SLRLF consists of the initial \$1,020,000 contribution by the SVD to the revolving loan fund.

Bad Debt Expense

The SLRLF uses the allowance method for recognition of loan losses based on identification of loans considered at risk of becoming uncollectible. This accounting method requires management to make estimates based on certain assumptions. Accordingly, actual results could differ from those estimates.

Exemption from Income Taxes

SLRLF operates as a nonprofit organization as defined in Section 501(c)(4) of the Internal Revenue Code and, therefore, is not subject to federal or state income taxes.

2. BUDGETARY REPORTING BASIS

The 1999 Appropriation Act included a program budget within the Department of Commerce budget of \$80,000 for personal services expenditures for SVD employees. A portion of the Department's budget for employee benefits would be allocated for the SVD. Other SVD activities were not part of this program budget.

Since GAAP does not require budgetary comparisons for enterprise funds, the SVD is not presenting a comparison of its legal basis expenditures to the legal budget.

3. DEPOSITS AND SHORT-TERM INVESTMENTS

The funds of the SVD may be deposited and invested with the State Treasurer. Funds may also be deposited or invested at financial institutions approved by the State Treasurer. Collateral is required for demand deposits, certificates of deposit and repurchase agreements in excess of amounts covered by federal deposit insurance. Obligations that may be pledged as collateral consist of obligations of the United States and its agencies and obligations of the State and its subdivisions. The SVD's deposits and investments are categorized below to indicate the level of risk assumed by the SVD at June 30, 1999.

Deposit Categories of Credit Risk:

- 1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- 2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- 3) Uninsured or uncollateralized.

Component Unit Investment and Credit Risk:

The SLRLF=s investments are insured or collateralized with securities held by the entity or its agent in the entity's name and classified in deposit credit risk category a.

Deposits Held by State Treasurer:

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1999, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

The cash and investments of the SVD and its component unit consist of deposits held by the State Treasurer, deposits with financial institutions and a certificate of deposit. The following is a schedule of cash and investments at June 30, 1999, categorized by risk:

| | <u>Category</u> | | | <u>Bank</u> | <u>Reported</u> |
|--------------------------------------|---------------------|-------------------|-------------|---------------------|---------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>Balance</u> | <u>Amount</u> |
| DEPOSITS | | | | | |
| <u>Primary Entity:</u> | | | | | |
| Deposits held by the State Treasurer | \$ 4,082,111 | \$ 0 | \$ 0 | \$ 4,082,111 | \$ 4,082,111 |
| <u>Component Unit:</u> | | | | | |
| Deposits held by commercial banks | 103,700 | 218,363 | 0 | 322,063 | 322,063 |
| Total Deposits | <u>\$ 4,185,811</u> | <u>\$ 218,363</u> | <u>\$ 0</u> | <u>\$ 4,404,174</u> | <u>\$ 4,404,174</u> |
| | | | | | |
| INVESTMENTS | | | | <u>Reported</u> | <u>Cost</u> |
| <u>Primary entity:</u> | | | | <u>Amount</u> | |
| | | | | \$ 0 | \$ 0 |
| <u>Component Unit:</u> | | | | | |
| Certificate of Deposit | \$ 140,000 | | | \$ 140,000 | \$ 140,000 |
| Total Investments | <u>\$ 140,000</u> | | | <u>\$ 140,000</u> | <u>\$ 140,000</u> |

4. STATE CAPITAL IMPROVEMENT BOND

In fiscal year 1992, the State authorized funds for development of the Aiken County project using proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. These authorized funds can be requested as needed once State authorities have approved specific projects. The SVD recorded the proceeds of the bond as revenue in fiscal 1992. During the year ended June 30, 1993, the SVD drew down funds to purchase and renovate a building in Aiken County. (The building was sold in June 1998.) During the year ended June 30, 1995, the SVD drew down funds to pay for a mapping project. In April 1996 the State Budget and control Board approved using the remaining balance of the bond to provide water and sewer to an industrial park located in Aiken County

The balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as Capital Improvement bond Proceeds Receivable. A summary of the balances available from the authorization as of June 30, 1999 is as follows:

| | |
|------------------------------|-------------------|
| <u>Act R.256 of 1991</u> | |
| Total authorized | \$ 4,500,000 |
| Amount drawn in prior years | 3,701,816 |
| Amount drawn in current year | <u>30,825</u> |
| Balance authorized | <u>\$ 767,359</u> |

The SVD is not obligated to repay these funds to the State.

5. NOTES PAYABLE AND RECEIVABLE

Savannah Valley Development

Savannah Lakes Village

In order to facilitate development of Savannah Lakes Village, a residential development in McCormick county, the SVD agreed to borrow funds from the State's Insurance Reserve Fund and lend these funds to McCormick County to pay for infrastructure within the development.

As additional infrastructure in Savannah Lakes Village is completed each year, the SVD requests additional funds from the Insurance Reserve Fund. The amount borrowed each year is determined by the number of new lots having infrastructure. Total borrowings cannot exceed \$20 million. Annual borrowings cannot exceed \$3.5 million. The SVD lends the money to McCormick County under the same terms and conditions under which it has borrowed from the Insurance Reserve Fund. McCormick County will repay the SVD by assessing the owners of lots in Savannah Lakes Village which have infrastructure. Land owners are assessed \$31, per month which is collected by the developer and remitted to the County, net of a \$1 per lot monthly administrative fee. In turn, McCormick County remits the amount collected each month to the State Treasurer who deposits the funds into the SVD accounts. The master note agreement requires money being held on the SVD's behalf by the State Treasurer to be deposited into the following accounts:

Special Tax Fund: Money remitted monthly by McCormick county is deposited in the Special Tax Fund until it is transferred to one of the other funds described below. Interest earnings of this fund inure to its benefit.

The balance in this account at June 30, 1999 was \$587,538. Of this amount \$541,307 has been recognized as notes receivable interest income by the SVD.

Interest Fund: Money is transferred from the Special Tax Fund annually in February in the amount necessary to pay the interest on all outstanding notes on the next interest payment date.

Debt Service Reserve Fund: After providing for the Interest Fund, a Debt Service Fund is to be maintained containing 15 percent but not less than 10 percent of the outstanding note balances. The balance of the account at June 30, 1999 was \$2,440,827 which equals the fifteen percent maximum required reserve.

Cumulative Sinking Fund: Any monies remaining after funding the Interest Fund and the Debt Service Reserve Fund are to be deposited in the Cumulative Sinking Fund from which they are to be applied to principal due on the notes in inverse order of series and of principal within a series. The balance of this account at June 30, 1999 was \$211,497. During fiscal 1999, no principal was retired.

The "special tax fund liability" on the balance sheet represents the cumulative amount which has been remitted by McCormick County in excess of interest and principal due through the date of the financial statements.

Interest on the notes is payable each February at 8 percent. Principal is due on each note 30 years from the date of issuance unless they are redeemed earlier. The SVD, the Insurance Reserve Fund and McCormick County intend to refinance the individual notes into a single note once the infrastructure is complete.

The following is a schedule of the individual notes as of June 30, 1999:

| | <u>Amount</u> |
|--------------|----------------------|
| January 1991 | \$ 1,576,892 |
| January 1992 | 2,500,000 |
| October 1992 | 121,238 |
| January 1993 | 1,227,734 |
| January 1994 | 2,690,812 |
| January 1995 | 1,260,186 |
| January 1996 | 1,569,410 |
| January 1997 | 1,730,362 |
| January 1998 | 1,139,070 |
| January 1999 | <u>2,423,517</u> |
| Total | <u>\$ 16,239,221</u> |

Of the \$2,423,517 drawn in January 1999, \$135,387 had not been distributed as of June 30, 1999. This amount is included on the balance sheet as note proceeds payable to McCormick County. Of the total drawn in January, 1998, \$66,005 was paid to McCormick County in fiscal 1999.

Savannah Lakes Regional Loan Fund

SCRLF loans receivable at June 30, 1999, consisted of the following:

| | | |
|---|--|--------------------|
| <p>\$150,000 loan to MediPak Corporation made in fiscal year 1994. As of June 30, 1997, the loan was in default. In September 1997, confession of judgement was obtained from the guarantors who have promised to pay SLRLF \$750 per month plus 11.25% of net income according to their personal income tax returns each year. No interest is provided by the confession of judgement. Due to the potential length of the repayment term and the questionable collectibility, in 1997, the allowance for loss for this loan was increased and the entire balance was offset by an allowance for loan losses. Repayments are recorded as loan loss recoveries in the statement of revenues, expenses and changes in retained earnings. During 1999, \$15,750 was recovered.</p> | | \$ 62,988 |
| <p>\$1,000,000 loan to Freshwater Resorts, LLC, made in the fiscal year ended June 30, 1998. (See note 7.) During the year ended June 30, 1998, the loan was fully reserved in the allowance for loan losses. As of June 30, 1999, the loan was in default, and the property and related assets collateralizing the loan had been recovered by the SVD. It is unlikely the loan will be repaid.</p> | | <u>931,000</u> |
| | | 993,988 |
| Less, allowance for loan losses | | <u>(993,988)</u> |
| Balance at net realizable value | | <u><u>\$ 0</u></u> |

6. CHANGES IN CONTRIBUTED CAPITAL

During the year ended June 30, 1999, there were no changes in contributed capital:

| | Savannah Valley Development | Revolving Loan Fund | Total Reporting Entity (Memorandum Only) |
|------------------------------------|-----------------------------------|----------------------------|--|
| Contributed capital, July 1, 1998 | \$ 4,509,110 | \$ 1,020,000 | \$ 5,529,110 |
| Changes | <u>0</u> | <u>0</u> | <u>0</u> |
| Contributed capital, June 30, 1999 | <u><u>\$ 4,509,110</u></u> | <u><u>\$ 1,020,000</u></u> | <u><u>\$ 5,529,110</u></u> |

7. WORK IN PROCESS AND ESCROW LIABILITY

Work-in-process at June 30, 1999 consisted of the following:

| | | |
|--|----|--------------------|
| Land, at cost | \$ | 962,152 |
| Development studies and professional fees, at cost | | 506,481 |
| Plus, recovery of land in settlement of default by developer during fiscal 1999 | | <u>936,561</u> |
| Total cost | | <u>2,405,194</u> |
| Less, value of land and associated development costs sold during fiscal 1997 | | (114,231) |
| Less, allowance to reduce project to net realizable value | | (504,905) |
| Less, increase in allowance to reduce project to net realizable value applicable to property reacquired in 1999 by deed-in-lieu-of-foreclosure | | <u>(829,184)</u> |
| Total reductions | | <u>(1,448,320)</u> |
| Balance at net realizable value | \$ | <u>956,874</u> |

The land, development studies and professional fees are related to a resort and retirement community at Lake Russell in Abbeville County which the SVD has had under development since 1992. The property to be developed includes some 2,900 acres owned by the SVD, leased by the SVD (see note 9) and leased from the U.S. Secretary of The Army by the South Carolina Department of Parks, Recreation and Tourism. All the property is located at or near Calhoun Falls, South Carolina.

In February 1997, the SVD signed an agreement with a private developer, Freshwater Resorts, LLC, (Freshwater) to complete the project. This agreement provided that the company would develop a mixed use resort and retirement community on the property. At the time the agreement was signed, Freshwater purchased some 87 acres of land from the SVD for \$104,364, all of which the SVD financed. The agreement provided that the SLRLF provide a loan to Freshwater of up to \$1,000,000 which was to be used to finance certain aspects of construction in the project. Freshwater agreed to obtain a commercial loan to match the \$1,000,000 loan from SLRLF, and the SVD agreed to subordinate any first mortgage position on the 87 acres which had already been sold to Freshwater so that the developers could obtain the loan. Principal payments were to be made on both \$1,000,000 loans as lot sales were closed. The agreement also required the SVD to provide a \$1,000,000 reimbursement grant to the Town of Calhoun Falls which was to be used to provide infrastructure in the development.

During fiscal 1998, the SLRLF loaned the entire \$1,000,000 to Freshwater, and Freshwater obtained the required \$1,000,000 matching bank financing which was collateralized by a first mortgage on approximately 80 of the 87 acres purchased by the company in 1997. Freshwater began construction of infrastructure using proceeds of the infrastructure grant to Calhoun Falls, began work on a golf course and other related amenities, and began a marketing campaign. Freshwater sold fifteen lots during the year and had several other lots under contract by year end. As required by the agreement, as Freshwater sold lots in the development, it repaid principal on the both the SLRLF and the commercial loan. By June 30, 1998, the SLRLF loan had been reduced to \$931,000, the commercial loan had been reduced as well, and the Town of Calhoun falls had received \$548,646 of the infrastructure grant.

In June 1998, however, the SVD determined that Freshwater was in default on the contract and notified the company accordingly. The SVD determined that the loan funds advanced by the SLRLF had not been used for purposes specified in the contract and that progress on the project was not occurring at the rate specified by the contract. Further, SVD management learned that two Freshwater subcontractors had filed mechanics liens totaling \$5,221,673 on 77 of the acres sold to Freshwater in February 1997 and on some 200 acres of the land leased to Freshwater.

Because Freshwater was deemed to be in default, at June 30, 1998, the SVD wrote off the \$104,364 note receivable for the land purchased by Freshwater in 1997, and the SLRLF established an allowance equal to its entire \$931,000 loan receivable from Freshwater. (See note 5.) Further, the SVD established an allowance of \$504,905 to reduce the carrying value of the work in process to estimated net realizable value.

In January 1999, the SVD executed a deed-in-lieu-of-foreclosure and Freshwater returned the unsold portion of the 87 acres it had purchased along with the earnest money deposits for pending lot sales and the mechanics liens were released. In exchange, the SVD agreed to terminate the development contract with Freshwater, to forgive Freshwater's debt to it, to pay off the principal and accrued interest due to the commercial bank for Freshwater's matching loan, and to reimburse one of the principals of Freshwater for an interest payment he made personally. In addition, the SLRLF agreed to forgive the loan it made to Freshwater. The total paid by the SVD to reacquire the land was as follows:

| | |
|--|-------------------|
| Principal and interest paid to commercial lender | \$ 902,830 |
| Payment to principal of Freshwater | 27,705 |
| Closing costs | <u>6,026</u> |
| Total | <u>\$ 936,561</u> |

Since the property recovered from Freshwater represented approximately 94 percent of the 87 acres originally sold to Freshwater in 1997 for \$114,231, management estimated that the net realizable value of the recovered property was \$107,377 (i.e., 94 percent of \$114,231). Therefore, after recording the \$936,561 in work in process, management also increased the allowance to reduce costs to net realizable value by \$829,184.

Subsequent to the January 1999 agreement, SVD management contacted those individuals who had deposited earnest money to purchase lots in the development. These people were asked if they wanted to have their deposits returned and their contracts canceled or if they wanted to leave their money on deposit pending selection of a successor developer. Of the \$89,813 of escrow money received from Freshwater, \$50,438 was returned to prospective buyers. Thirty-one buyers chose to leave their earnest money on deposit. Escrow deposits at June 30, 1999 totaled \$39,375.

Also during fiscal 1999, the Town of Calhoun Falls was paid the \$411,354 remaining under terms of the infrastructure grant.

Management hopes to find another private company to complete the project. It is not certain what the total cost to complete this project will be.

8. RENT RECOVERY

During the year ended June 30, 1994, the SVD entered into an operating lease with a company to lease a building which the SVD owned in Aiken County. In April 1995, the lessee was placed in receivership, and in June 1996, the company ceased operating. The building was sold in June 1998, but the SVD pursued the company's owner, who had personally guaranteed the lease, in order to recover some or all of the rent which was required by the lease. During fiscal 1999, the SVD agreed to release the owner from his personal guarantee in exchange for a one-time payment of \$60,000. This amount is reported in the income statement as Arent recovery.

9. OPERATING LEASES

The SVD leases 1,675 acres of land in Abbeville County from the U.S. Secretary of the Army under terms of a Lease to States for Public Park, Recreational and Forest Management Purposes. This lease grants the SVD certain usage and development rights for a term of 99 years beginning July 5, 1994. This land is part of the property which is the Lake Russell project development discussed in note 7. No rent is paid under terms of this lease; however, the lease requires the SVD to maintain boat ramps located on the property. Cost of maintaining these ramps during fiscal 1999 was \$42,894.

10. PENSION PLAN

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

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

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The SVD's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 1999, 1998, and 1997, were \$2,164, \$0, and \$1,523, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year.

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

The Systems do not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the SVD's liability under the plans is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the SVD's liability under the pension plan(s) is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the SVD recognizes no contingent liability for unfunded costs associated with participation in the plan.

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

11. RELATED PARTY TRANSACTIONS

The SVD has significant transactions with the State of South Carolina. Services received at no cost from State agencies include check preparation and banking and investment functions from the State Treasurer.

South Carolina Department of Commerce employees provide management and accounting services for the SVD. During fiscal 1999, the SVD paid the Department of Commerce \$22,585 for salaries, \$1,727 for related FICA and Medicare taxes, \$2,164 for contributions to the SCRS, and \$34 for health insurance. None of these amounts was payable at June 30, 1999.

As part of its mission as an economic development agency for the Savannah River basin, the SVD receives from and provides services and financial assistance to various local governments in the area. These transactions take the form of direct and indirect financial assistance and employee assistance such as technical advice. No value can be determined for the indirect assistance and advice. However, during the year ended June 30, 1999, the SVD made a direct \$30,825 grant to Aiken County for water and sewer construction (as discussed in note 4) and a grant of \$411,354 to the Town of Calhoun Falls 9 (as discussed in note 7). None of these amounts was payable at June 30, 1999.

Under an agreement with JEDA (see note 1), the Savannah Lakes Regional Loan Fund paid Carolina Capital Investment Corporation \$ 6,008 in management fees for the year ended June 30, 1999, all of which was payable at year end. The fee is .05% of the outstanding loan portfolio balance, computed monthly.

12. FUND EQUITY

At June 30, 1999, the SVD's retained earnings include an unreserved deficit of \$2,115,364 and the SLRLF reports a \$563,665 deficit in retained earnings. Both deficits have resulted because expenses have exceeded revenues. Management hopes to eliminate these deficits by finding a developer who will purchase and complete the project at Lake Russell (see note 7).

13. CONTINGENCY

It is not certain that a developer will be found to complete the project at Lake Russell (see note 7). It is also not certain that a developer, if found, will be willing to pay enough for the project to eliminate the deficit in the SVD's unreserved retained earnings (see note 12).

14. Y2K ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999. The year 2000 issue may affect not only computer applications and equipment under the SVD's direct control but also those of other entities with which the SVD transacts business.

At June 30, 1999, the SVD had completed remediation of the one computer program (an accounting program) and the one computer which it uses. Management has tested the program and determined that the system is Y2K compliant. The SVD has further determined that its computer and software are not mission critical.

The SVD has also completed an inventory of computer systems and other electronic equipment not under its direct control that may be affected by the year 2000 issue and that may be necessary to conduct its operations. The SVD is making contingency plans for possible failure of these systems which could interrupt its normal flow of work.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the SVD is Year 2000 ready or that parties with whom the SVD does business will be year 2000 ready.

There is no information on the Y2K issue in the SLRLF financial statements.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROLS OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 19, 1999

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

We have audited the financial statements of the Division of Savannah Valley Development of the South Carolina Department of Commerce (the SVD) as of and for the year ended June 30, 1999, and have issued our report thereon dated August 19, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the SVD's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the SVD's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

WILDMAN & RICHARDS, LLP
Certified Public Accountants

AUDITOR'S COMMENTS

August 19, 1999

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

During the current year engagement, no matters came to our attention on which we wish to comment.

WILDMAN & RICHARDS, LLP
Certified Public Accountants

STATUS OF PRIOR YEAR=S FINDINGS

August 19, 1999

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

Management's Communication with Accounting Staff and Knowledge of Transactions

During our audit of the SVD's financial statements for the year ended June 30, 1998, the SVD was involved in a complicated contract to develop land which the SVD owns and leases. We noted that the SVD's accounting staff was not informed regarding the terms of this contract and the resulting transactions. We also determined that management was not certain about terms or existence of some subsequent related agreements. We recommended that SVD management provide accounting staff with complete information about SVD contracts and related transactions. Moreover, we recommended that management be thoroughly familiar with the agreements its attorneys make on its behalf, and we recommended that management include on its team working with the land development project someone knowledgeable about financial disclosures.

During our audit of the SVD's financial statements for the year ended June 30, 1999, we found that our recommendations were adopted. Management and accounting staff were fully informed regarding terms of the land development project.

WILDMAN & RICHARDS, LLP
Certified Public Accountants