

**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, 2005

WALDA WILDMAN LLC
C E R T I F I E D P U B L I C A C C O U N T A N T

State of South Carolina



Office of the State Auditor

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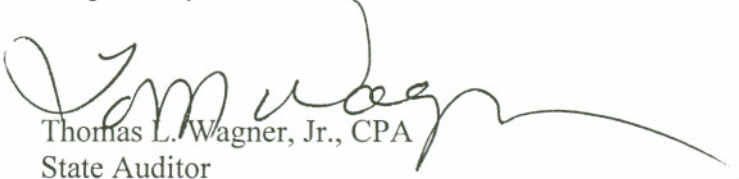
September 21, 2005

The Honorable Mark Sanford, Governor
and
Mr. Robert A. Faith, Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce - Division of Savannah Valley Development for the fiscal year ended June 30, 2005, was issued by Walda Wildman, LLC, Certified Public Accountant, 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/trb

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OF THE SOUTH CAROLINA
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OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
FINANCIAL STATEMENTS
Year Ended June 30, 2005**

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

August 11, 2005

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

I have audited the accompanying basic financial statements of the Division of Savannah Valley Development of the South Carolina Department of Commerce (the SVD) as of June 30, 2005, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the SVD's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinions.

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 South Carolina Department of Commerce and the State of South Carolina that is attributable to the transactions of the SVD. They do not purport to, and do not, present fairly the financial position of South Carolina Department of Commerce and the State of South Carolina as of June 30, 2005, and the changes in their financial positions and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the SVD as of June 30, 2005, 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.

In accordance with *Government Auditing Standards*, I have also issued a report dated August 11, 2005 on my consideration of the SVD's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplementary Schedule of Information on Business-Type Activities Required for the Government-Wide

Statement of Activities in the State Comprehensive Annual Financial Report is presented for purposes of additional analysis as required by the Office of the South Carolina Controller General and is not a required part of the basic financial statements of the Savannah Valley Development of the South Carolina Department of Commerce. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The SVD has not presented Management's Discussion and Analysis, which is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

Walda Wildman LLC

WALDA WILDMAN, LLC
Certified Public Accountant

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
STATEMENT OF NET ASSETS**

June 30, 2005

ASSETS

Current assets:

Cash and cash equivalents	\$ 319,035
Total unrestricted current assets	<u>319,035</u>

Restricted current assets:

Cash and cash equivalents	
Note payable debt service and sinking funds	2,312,968
Total restricted cash and cash equivalents	<u>2,312,968</u>
Interest receivable on restricted deposits	28,154
Interest receivable on notes receivable	<u>1,261,468</u>
Total restricted current assets	<u>3,602,590</u>

Restricted non-current assets:

Notes receivable	14,300,021
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Capital assets

Work-in-process, net of \$752,844 valuation allowance	497,386
Land, net of \$63,318 valuation allowance	<u>1</u>
Total capital assets	<u>497,387</u>

Total assets	<u>18,719,033</u>
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LIABILITIES

Current liabilities payable from restricted assets:

Accounts payable	1,601
Interest payable	<u>479,951</u>
Total current liabilities payable from restricted assets	<u>481,552</u>

Non-current liabilities payable from restricted assets:

Notes payable	<u>14,300,021</u>
Total non-current liabilities	<u>14,300,021</u>

Total liabilities	<u>14,781,573</u>
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NET ASSETS

Invested in capital assets	497,387
Restricted for debt service	3,122,639
Unrestricted	<u>317,434</u>
Total net assets	<u>\$ 3,937,460</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 NET ASSETS
For the year ended June 30, 2005**

Operating revenues:	
Sale of land	\$ 5,403,350
Operating expenses:	
Cost of sale of land	5,859,488
Professional fees	25,249
Miscellaneous	1,339
Repairs and maintenance	21,012
Total operating expenses	<u>5,907,088</u>
Operating income (loss)	(503,738)
Non-operating revenues (expenses):	
Grant to regional government agency	(50,000)
Interest income on notes receivable	1,179,168
Interest income from deposits and short-term investments	120,760
Interest expense	<u>(1,179,168)</u>
Total non-operating revenues (expenses)	<u>70,760</u>
Change in net assets	(432,978)
Net assets, beginning of year	<u>4,370,438</u>
Net assets, end of year	<u><u>\$ 3,937,460</u></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
For the year ended June 30, 2005**

Cash flows from operating activities:

Payments from customers	\$ 40,503
Payments to suppliers and customers	(175,397)
Net cash provided (used) by operating activities	<u>(134,894)</u>

Cash flows from non-capital financing activities:

Transfers to other funds	(50,000)
Transfers from other funds	-
Principal payments on notes payable	(584,674)
Interest payments on notes payable	(1,198,658)
Net cash provided (used) by non-capital financing activities	<u>(1,833,332)</u>

Cash flows from investing activities:

Collection of escrow payments from borrower	785,742
Interest received on deposits and short-term investments	120,760
Net cash provided (used) by investing activities	<u>906,502</u>

Net cash and cash equivalents increase (decrease) for year (1,061,724)

Cash and cash equivalents, beginning of year 3,693,727

Cash and cash equivalents, end of year \$ 2,632,003

Reconciliation of operating loss to net cash used by operating activities:

Loss from operations	\$ (503,738)
Adjustments to reconcile net cash provided (used) by operating activities:	
Change in assets and liabilities	
Increase (decrease) in accounts payable	(28,363)
Increase (decrease) in Lake Russell project escrow liability	(62,281)
Decrease (increase) in work in process	459,488
Net cash provided (used) by operating activities	<u>\$ (134,894)</u>

Supplemental disclosures – non-cash transactions:

Proceeds from sale of land	\$ 5,400,000
Satisfaction of contingent obligation to developer's subcontractor	\$ 5,400,000
Reduction of notes payable and receivable by State Treasurer's Office to replace funds diverted to General Fund of State in prior year	\$ 98,520

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, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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 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 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, but has received no annual state appropriation since that time.

Reporting Entity

A financial reporting entity, as defined by GASB Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. The financial statements of the SVD constitute neither a primary government nor a component unit of a primary government because they present the financial position, results of operations, and cash flows of only that portion of the funds of the South Carolina Department of Commerce and the State of South Carolina that is attributable to the transactions of the Division of Savannah Valley Development of the South Carolina Department of Commerce. The SVD is part of the primary government of the State of South Carolina and its financial statements are included in the Comprehensive Annual Financial Report of the State of South Carolina, which is the primary government.

Basis of Presentation

In compliance with the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the SVD’s financial statement presentation provides a comprehensive, entity-wide perspective of the SVD’s net assets, revenues, expenses and changes in net assets and cash flows.

Significant Accounting Policies

Basis of Accounting

For financial reporting purposes, the SVD is considered a division of a department of a government engaged only in a single business-type activity including debt service and capital activity. Accordingly, these financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. That is, revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized when an obligation has been incurred. In addition, all assets and liabilities associated with operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are classified as 1) invested in capital assets, 2) restricted, and 3) unrestricted.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

The SVD distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing services and /or goods in connection with its principal on-going activity, which is the sale and rental of property used to promote and develop the Savannah River basin. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In accordance with Government Accounting Standards Board statement No. 20, the SVD has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989.

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 cash management pool, administered by the State Treasurer, 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. Investments held by the pool are recorded 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.

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 at the time of acquisition.

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.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation, using guidelines established by the State of South Carolina. According to these guidelines, all land is capitalized, regardless of cost. Buildings and qualifying improvements thereto and improvements that rest in or on the land itself are recorded as depreciable capital assets if their cost exceeds \$100,000. Movable personal property is recorded as a capital asset if its unit value in exceeds \$5,000 and its useful life is in excess of two years. Routine

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
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June 30, 2005**

repairs and maintenance are charged to operating expenses in the years in which the expense is incurred. Until they are completed, development projects and real estate held for development are recorded as work-in-process. Once completed, they are reclassified to the appropriate capital assets category

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.

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.

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.

Restricted Assets

Restricted assets represent monies or other resources, the use of which is restricted by legal or contractual requirements. At June 30, 2005, restricted assets included amounts being held in various cash and cash equivalent accounts to repay the Authority's notes payable to the State Insurance Reserve Fund, which were limited by applicable loan covenants.

Classification of Revenues and Expense

The SVD classifies its revenues and expenses as either operating or non-operating. Operating revenues include revenues generated by activities that have the characteristics of exchange transactions and generally result from transactions arising in connection with its principal on-going activity, the development of the Savannah River Basin. Operating revenues include charges and assessments for the use of its facilities and services. Operating expenses result from providing the facilities and services exchanged for the respective revenues.

All revenues and expenses not meeting the definition of operating revenues and expenses are reported as non-operating revenues and expenses. Such transactions generally arise from activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

Net Assets

The SVD's net assets are classified as follows:

- *Invested in capital assets:* This represents the SVD's total investment in capital assets, net of any outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets.
- *Restricted net assets:* Restricted expendable net assets include resources in which the SVD is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- *Unrestricted net assets:* Unrestricted net assets represent resources derived from operating revenues and may be used to meet current expenses for any purpose

The SVD's policy for applying expenses that can use both restricted and unrestricted resources is to apply the expense to restricted resources then to unrestricted resources.

Income Taxes

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

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.

2. DEPOSITS

At June 30, 2005, all deposits of the SVD were held by the South Carolina State Treasurer. Deposits reported in the financial statements total \$2,632,003. Deposits held by the State Treasurer totaled \$2,633,754. Readers should refer to the Comprehensive Annual Financial Report of the State of South Carolina for information pertaining to reported amounts, fair values, and credit risk of the State Treasurer's deposits and investments.

3. NOTES PAYABLE AND RECEIVABLE

In order to facilitate development of Savannah Lakes Village, a residential community in McCormick County, the SVD agreed to borrow up to \$20 million from the State's Insurance Reserve Fund and to lend these funds to McCormick County to pay for the community's infrastructure. From 1990 through 2001, when the \$20 million dollar maximum was reached, the SVD annually requested funds from the Insurance Reserve Fund based on the number of new lots having infrastructure. The SVD in turn loaned the money to McCormick County under terms and conditions identical to those under which it borrowed from the Insurance Reserve Fund. Each annual borrowing resulted in a separate note under terms of the master note agreement. In fiscal 2005, the State Treasurer's Office administratively consolidated the notes into one with no changes to the master note agreement.

McCormick County is repaying the SVD by assessing the owners of lots in Savannah Lakes Village \$31 per month. The assessments are 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 to the State Treasurer who deposits the funds into SVD accounts required by the master note agreement as follows:

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

Special Tax Fund: Money remitted 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, 2005 was \$125,468. As of June 30, 2005, this entire amount 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, 2005 was \$2,145,003, which is 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. The balance of this account at June 30, 2005 was \$42,497. During fiscal 2005, \$584,674 principal was paid on the January 1992 note. Both the note receivable and the note payable were reduced by an additional \$98,521 during the year when the State Treasurer's Office administratively restored funds which were moved in a prior year to the State's General Fund.

Unless redeemed earlier, principal is due 30 years from the date it was borrowed. Interest at 8 percent is due annually in January. Minimum debt service to maturity is as follows:

Fiscal Year	Principal	Interest	Payments
2006	\$ -	\$ 1,144,002	\$ 1,144,002
2007	-	1,144,002	1,144,002
2008	-	1,144,002	1,144,002
2009	-	1,144,002	1,144,002
2010	-	1,144,002	1,144,002
2011-2015	-	5,720,010	5,720,010
2016-2020	-	5,720,008	5,720,008
2021-2025	5,606,883	5,205,547	10,812,430
2026-2030	8,086,621	2,183,624	10,270,245
2031	606,517	48,521	655,038
	<u>\$ 14,300,021</u>	<u>\$ 24,597,720</u>	<u>\$ 38,897,741</u>

4. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005, was as follows:

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June 30, 2005**

Note	Amount	Additions	Reductions	Ending Balance	Due Within One Year
January 1992	\$ 990,107	-	\$ 990,107	\$ -	\$ -
October 1992	121,238	-	121,238	-	-
January 1993	1,227,734	-	1,227,734	-	-
January 1994	2,690,812	-	2,690,812	-	-
January 1995	1,260,186	-	1,260,186	-	-
January 1996	1,569,410	-	1,569,410	-	-
January 1997	1,730,362	-	1,730,362	-	-
January 1998	1,139,070	-	1,139,070	-	-
January 1999	2,423,517	-	2,423,517	-	-
January 2000	1,224,262	-	1,224,262	-	-
January 2001	606,517	-	606,517	-	-
January 2004	-	14,300,021	-	14,300,021	-
Total	\$ 14,983,215	\$ 14,300,021	\$ 14,983,215	\$ 14,300,021	\$ -

5. WORK IN PROCESS

In 1992, the SVD began work to develop a golf resort and retirement community at Lake Russell near Calhoun Falls, South Carolina. The property includes some 2,750 acres owned by the SVD, leased by the SVD (see note 7) and leased from the U.S. Secretary of The Army by the South Carolina Department of Parks, Recreation and Tourism (SCPRT).

In February 1997, the SVD signed an agreement with a private developer to complete the project. The developer hired Fluor Daniel, Inc., as construction manager and began constructing infrastructure and related amenities. By the end of 1997, fifteen lots had been sold and others were under contract. In December 1997, Fluor Daniel suspended work because it was not being paid by the developer. In June 1998, the SVD determined that the developer was in default, and Fluor Daniel and another project subcontractor filed mechanics liens exceeding \$5 million.

In the fall of 1998, the SVD and the developer agreed to terminate the development agreement. Among various provisions of the termination agreement, Fluor Daniel agreed to satisfy the mechanics liens and forego collection of what it was owed by the developer. Also, the developer turned over to the SVD the escrow deposits made by prospective lot purchasers in connection with their pending purchases.

From fiscal 2000 through the end of fiscal 2002, a contract to complete the project was pending with a second developer. The proposed agreement acknowledged that Fluor Daniel was owed in excess of \$5.3 million in connection with its work on the project and specified that Fluor would be repaid prior to the SVD receiving any cash from the replacement developer. The agreement was never closed, however, and the proposed private developer withdrew from the project in June 2002.

In April 2003, a third developer, US Land Investments, LLC, (US Land) signed a memorandum of understanding with the SVD, the SCDOC, and Fluor Enterprises, Inc. (formerly Fluor Daniel). The memorandum set forth general terms for completion of the project and provided a due diligence period for the developer, during which it could assess the project. In July 2004, anticipating a final agreement with US Land, the SVD refunded any remaining escrow deposits to prospective purchasers.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
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In October 2004, the SVD and US Land signed a final development agreement, and pursuant to its terms, the SVD sold 411.82 acres of land it owned fee simple to US Land. Also in accordance with the agreement, the SVD entered into sub-leases with US Land for portions of land it in turn sub-leases from the South Carolina Department of Parks, Recreation and Tourism. (See note 7). In exchange for the land and the sub-leases, US Land executed a note and mortgage payable to Fluor in the amount of \$5.4 million which fully satisfies any obligations to Fluor. US Land simultaneously re-purchased eight of the fifteen lots sold in 1997 by the original developer.

Moreover, pursuant to the development agreement, the SVD granted US Land an option to purchase the additional 445.79 acres of its fee simple land at \$1,500 per acre and to sub-lease additional land sub-leased by the SVD from SCPRT. The agreement also requires the SVD to negotiate with the Corps of Engineers for additional land which US Land may purchase at the \$1,500 per acre price. The option expires in October 2014.

The October 2004 development agreement also calls for the SVD to make a \$350,000 infrastructure grant to Abbeville County and the Town of Calhoun Falls to provide road, water and sewer improvements for the property. The agreement also obligates the SVD to provide an employee one day per month for two years to act as a liaison with the U. S. Army Corps of Engineers and any other governmental or regulatory body having jurisdiction over the project.

US Land is obligated to complete a master plan which is expected to include a golf course, short-term rental housing, residential lots, and golf club house with amenities and retail facilities. The project will be completed in phases contingent on the SVD's approval of the master development plan. The development agreement requires US Land to complete the project in ten years.

As a result of the agreement, during fiscal 2005, the SVD recognized a \$459,488 loss on the sale of the 411.82 acres. As of June 30, 2005, the carrying value of the work in process was \$497,386, net of a \$752,844 valuation allowance.

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

Capital Assets Not Being Depreciated:

	Beginning Balance	Increases	Decreases	Ending Balance
Work in process, net of valuation allowance	\$ 956,874	\$ 0	\$ 459,488	\$ 497,386
Land, net of valuation allowance	1	0	0	1
	<u>\$ 956,875</u>	<u>\$ 0</u>	<u>\$ 459,488</u>	<u>\$ 497,387</u>

7. 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. As part of the development agreement discussed in note 5, the lease was assigned to US Land Investments in October 2004. 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 2005 was \$21,012. US Land Investments is required to maintain the ramps beginning in the fall of 2005.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

8. 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 is covered for such risks under policies purchased by the South Carolina Department of Commerce which pays insurance premiums to certain other State agencies to cover such risks which may occur in normal operations. (See note 9.) 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 Department of Commerce 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 theft of, damage to, or destruction of assets, real property, contents, and other equipment, torts, and 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.

9. 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 and insurance coverage from the South Carolina Department of Commerce (see note 1). Also, South Carolina Department of Commerce employees provide management and accounting services for which the SVD was charged \$19,297 during fiscal 2005.

During the year, the SVD also had transactions with other agencies of the State of South Carolina and its political subdivisions. The SVD made a \$50,000 grant to the Lower Savannah Council of Governments, none of which was payable at year end. The SVD also received \$3,350 from the South Carolina Department of Transportation (SCDOT) for sale of right of way property which SCDOT required for highway drainage.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
SUPPLEMENTARY SCHEDULE OF INFORMATION ON BUSINESS-TYPE ACTIVITIES REQUIRED
FOR THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES IN THE STATE COMPREHENSIVE
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2005**

	2005	2004	Net Change
Charges for services	\$ 6,582,518	\$ 1,236,585	\$ 5,345,933
Operating grants and contributions	120,760	139,970	(19,210)
Capital grants and contributions	-	-	-
Less: expenses	(7,136,256)	(1,625,869)	(5,510,387)
Net program revenue (expense)	(432,978)	(249,314)	(183,664)
General revenues:			
Earnings on investments	-	-	-
Other general revenues	-	-	-
Interest income on notes receivable	-	-	-
Special/extraordinary items	-	-	-
Contributions to permanent and term endowments	-	-	-
Transfers:			
State appropriation	-	-	-
Other transfers in from state agencies/funds	-	511,285	(511,285)
Less: transfers out to state agencies/funds	-	-	-
Total general revenue and transfers	-	511,285	(511,285)
Change in net assets	(432,978)	261,971	(694,949)
Net assets – beginning	4,370,438	4,108,467	-
Net assets – ending	\$ 3,937,460	\$ 4,370,438	\$ (694,949)

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

August 11, 2005

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

I 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, 2005 and have issued my report thereon dated August 11, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the SVD's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SVD's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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AUDITOR'S COMMENTS

August 11, 2005

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

During the current year engagement, the following matter came to my attention on which I wish to comment:

Transmittal of Savannah Lakes Village Resident Payments by McCormick County to State Treasurer

For the past two years I have commented that McCormick County is not regularly remitting to the State Treasurer's Office the monthly payments it receives from Savannah Lakes Village residents. During fiscal 2005, the SVD received only seven payments from McCormick County totaling \$785,742, \$393,426 less than the \$1,179,168 interest which was due for the year.

There is no procedure in place to determine whether Savannah Lakes Village residents are actually making the required payments and, if so, whether the county is remitting what it collects. Under terms of the Supplemental Infrastructure Development Note, Series 1992, McCormick County agreed to levy, collect and remit monthly a special tax as required by the terms of the master note agreement.

Management should consider establishing a way to monitor receipt of payments from the residents and the related transfer to the State Treasurer by McCormick County.

Walda Wildman LLC

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STATUS OF PRIOR YEAR'S FINDINGS

August 11, 2005

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

During my audit of the Savannah Valley Development's financial statements for the year ended June 30, 2004, I commented that McCormick County was not making regular monthly transmittals of the funds it collects from the residents of Savannah Lakes Village to the State Treasurer. I recommended that Management consider following up on the status of receipts from the County in order to insure retirement of the debt to the Insurance Reserve Fund. I noted no provision to ensure the timeliness of these payments. During fiscal 2005, no action was taken on my recommendation, and I have made a similar comment this year.

Walda Wildman LLC

WALDA WILDMAN, LLC
Certified Public Accountant