

October 30, 1998

The Honorable David M. Beasley, Governor  
and  
Mr. Robert V. Royall, 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, 1998, 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,

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

**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, 1998**

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
FINANCIAL STATEMENTS  
Year Ended June 30, 1998**

**TABLE OF CONTENTS**

	Page
<b>Independent Auditor's Report on the Financial Statements</b>	1
<b>Financial Statements</b>	
Balance Sheet-Proprietary Fund Type and Discretely Presented Component Unit	3 - 4
Statement of Revenues, Expenses and Changes in Retained Earnings- Proprietary Fund Type and Discretely Presented Component Unit	5
Statement of Cash Flows- Proprietary Fund Type and Discretely Presented Component Unit	6
Notes to Financial Statements	7 - 20
<b>Independent Auditor's Report on Compliance and on Internal Controls Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	21 - 22
<b>Auditor's Comments</b>	23 - 24
<b>Management's Response to Auditor's Comments</b>	25

## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

August 20, 1998

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, 1998, 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 4, 1998 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.

Except as discussed in the following paragraph, 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.

We were unable to obtain the terms, if any, of an agreement between the SVD and a subcontractor on the Lake Russell project discussed in notes 7 and 17, applicable to the SVD's property at the development, nor were we able to satisfy ourselves as to the existence and/or terms of such an agreement by other auditing procedures. The property to which the agreement, if it exists, applies is included in the balance sheet of the primary entity at \$849,497 and represents 4.2% of the assets of the primary entity.

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, except for the effects of adjustments, if any, as might have been determined to be necessary had we been able to obtain the agreement discussed above, if any, or had we been able to satisfy ourselves as to the existence and/or terms of such an agreement by other auditing procedures, the financial statements referred to above present fairly, in all material respects, the financial position of the SVD at June 30, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 1998, 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, 1998**

	Proprietary Fund Type Enterprise	Totals Primary Entity (Memorandum Only)	Component Unit Savannah Lakes Regional Loan Fund	Totals Reporting Entity (Memorandum Only)
<b>ASSETS</b>				
Unrestricted current assets:				
Cash and cash equivalents (note 3)	\$1,997,617	\$1,997,617	\$295,816	\$2,293,433
Escrow proceeds receivable (note 11)	100,000	100,000	0	100,000
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	5,482	5,482	0	5,482
Interest receivable on loans	0	0	302	302
Capital improvement bond proceeds receivable (note 4)	<u>798,184</u>	<u>798,184</u>	<u>0</u>	<u>798,184</u>
Total unrestricted current assets	<u>2,901,283</u>	<u>2,901,283</u>	<u>436,118</u>	<u>3,337,401</u>
Restricted current assets:				
Cash and cash equivalents:				
Note payable debt service and sinking funds (note 5)	<u>2,831,909</u>	<u>2,831,909</u>	<u>0</u>	<u>2,831,909</u>
Total restricted current assets	<u>2,831,909</u>	<u>2,831,909</u>	<u>0</u>	<u>2,831,909</u>
Total current assets	<u>5,733,192</u>	<u>5,733,192</u>	<u>436,118</u>	<u>6,169,310</u>
Unrestricted non-current assets:				
Work-in-process, net of allowance to reduce carrying value to estimated net realizable value (notes 7, 16, and 17)	849,497	849,497	0	849,497
Notes receivable, net of current portion above(note 5)	<u>13,815,704</u>	<u>13,815,704</u>	<u>0</u>	<u>13,815,704</u>
Total non-current assets	<u>14,665,201</u>	<u>14,665,201</u>	<u>0</u>	<u>14,665,201</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>\$20,398,394</u>	<u>\$ 20,398,394</u>	<u>\$ 436,118</u>	<u>\$ 20,834,512</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, 1998**

	Proprietary Fund Type Enterprise	Totals Primary Entity (Memorandum Only)	Component Unit Savannah Lakes Regional Loan Fund	Totals Reporting Entity (Memorandum Only)
<b>LIABILITIES AND FUND EQUITY</b>				
Current liabilities payable from unrestricted current assets:				
Note proceeds payable to McCormick County (note 5)	\$ 66,005	\$ 66,005	\$ 0	\$ 66,005
Accounts payable	15,473	15,473	0	15,473
Accounts payable - related party (note 12)	0	0	5,642	5,642
Total current liabilities payable from unrestricted current assets	81,478	81,478	5,642	87,120
Current liabilities payable from restricted current assets:				
Special tax fund liability (note 5)	430,811	430,811	0	430,811
Interest payable	460,523	460,523	0	460,523
Total current liabilities payable from restricted assets	891,334	891,334	0	891,334
Total current liabilities	972,812	972,812	5,642	978,454
Long-term liabilities payable from restricted assets:				
Notes payable (note 5)	13,815,704	13,815,704	0	13,815,704
Total long-term liabilities	13,815,704	13,815,704	0	13,815,704
Total liabilities	14,788,516	14,788,516	5,642	14,794,158
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	1,940,575	1,940,575	0	1,940,575
Unreserved deficit (note 15)	(839,807)	(839,807)	(589,524)	(1,429,331)
Total retained earnings(deficit)	1,100,768	1,100,768	(589,524)	511,244
Total fund equity	5,609,878	5,609,878	430,476	6,040,354
Total liabilities and fund equity	\$20,398,394	\$ 20,398,394	\$ 436,118	\$ 20,834,512

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, 1998**

	Proprietary Fund Type Enterprise	Totals Primary Entity (Memorandum Only)	Component Unit Savannah Lakes Regional Loan Fund	Totals Reporting Entity Memorandum Only)
Operating revenues:				
Interest income on notes receivable	\$ 0	\$ 0	\$ 1,231	\$ 1,231
Loan loss recoveries (note 5)	0	0	7,250	7,250

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

Total operating revenue	<u>0</u>	<u>0</u>	<u>8,481</u>	<u>8,481</u>
Operating expenses:				
Infrastructure grant expense (notes 4, 7 and 12)	1,194,890	1,194,890	0	1,194,890
Bad debt expense (notes 5, 7 and 9)	98,923	98,923	931,000	1,029,923
Provision for loss on work in process (note 7)	504,905	504,905	0	504,905
Legal and accounting fees	24,698	24,698	2,096	26,794
Depreciation	37,974	37,974	0	37,974
Management fees (note 12)	0	0	5,642	5,642
Insurance	1,471	1,471	0	1,471
Office expense	24	24	0	24
Bank charges	0	0	1,531	1,531
Repairs and maintenance (note 10)	<u>19,560</u>	<u>19,560</u>	<u>0</u>	<u>19,560</u>
Total operating expenses	<u>1,882,445</u>	<u>1,882,445</u>	<u>940,269</u>	<u>2,822,714</u>
Operating income (loss)	(1,882,445)	(1,882,445)	(931,788)	\$ (2,814,233)
Non-operating revenues (expenses):				
Interest income on notes receivable (note 5)	1,078,233	1,078,233	0	1,078,233
Interest income from deposits and short-term investments	243,286	243,286	24,515	267,801
Interest expense (note 5)	(1,078,233)	(1,078,233)	0	(1,078,233)
Forgiveness of debt income (note 13)	26,298	26,298	0	26,298
Loss on sale of assets (note 11)	<u>(213,813)</u>	<u>(213,813)</u>	<u>0</u>	<u>(213,813)</u>
Total non-operating revenues (expenses)	<u>55,771</u>	<u>55,771</u>	<u>24,515</u>	<u>80,286</u>
Net income (loss)	(1,826,674)	(1,826,674)	(907,273)	(2,733,947)
Add, depreciation on fixed assets acquired by revenues restricted for capital acquisition and that reduces contributed capital (note 6)	<u>37,974</u>	<u>37,974</u>	<u>0</u>	<u>37,974</u>
Increase (decrease) in retained earnings	<u>(1,788,700)</u>	<u>(1,788,700)</u>	<u>(907,273)</u>	<u>(2,695,973)</u>
Retained earning, beginning of year, as previously reported	2,904,776	2,904,776	317,749	3,222,525
Prior period adjustment-sale of land (note 8)	<u>(15,308)</u>	<u>(15,308)</u>	<u>0</u>	<u>(15,308)</u>
Retained earnings, beginning of year, as restated	2,889,468	2,889,468	317,749	3,207,217
Retained earnings (deficit), end of year (note 15)	<u>\$1,100,768</u>	<u>\$ 1,100,768</u>	<u>\$ (589,524)</u>	<u>\$ 511,244</u>

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, 1998**

**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, 1998**

	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)	\$(1,882,445)	\$ (1,882,445)	\$ (931,788)	\$ (2,814,233)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:				
Depreciation	37,974	37,974	0	37,974
Amortization of loan origination fees	0	0	(979)	(979)
Bad debt expense	98,923	98,923	931,000	1,029,923
Provision for loss on work in process	504,905	504,905	0	504,905
Changes in assets - (increase) decrease in:				
Interest receivable on loans	0	0	648	648
Capital improvement bond proceeds receivable	680,310	680,310	0	680,310
Escrow proceeds receivable	(100,000)	(100,000)	0	(100,000)
Changes in liabilities - increase (decrease) in:				
Accounts payable	(429)	(429)	0	(429)
Accounts payable - related party	(74,066)	(74,066)	4,666	(69,400)
Special tax fund liability	(94,425)	(94,425)	0	(94,425)
Net cash provided (used) by operating activities	<u>(829,253)</u>	<u>(829,253)</u>	<u>3,547</u>	<u>(825,706)</u>
Cash flows from non-capital financing activities:				
Proceeds from long-term borrowing under notes payable	1,139,070	1,139,070	0	1,139,070
Interest payments on notes payable	(1,058,931)	(1,058,931)	0	(1,058,931)
Principal payments on notes payable	<u>(560,000)</u>	<u>(560,000)</u>	<u>0</u>	<u>(560,000)</u>
Net cash provided (used) by non-capital financing activities	<u>(479,861)</u>	<u>(479,861)</u>	<u>0</u>	<u>(479,861)</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of building, net of expenses of \$34,628	1,140,372	1,140,372	0	1,140,372
Disbursements for additions to work-in-process	<u>(32,186)</u>	<u>(32,186)</u>	<u>0</u>	<u>(32,186)</u>
Net cash provided(used)by capital and related financing activities	<u>1,108,186</u>	<u>1,108,186</u>	<u>0</u>	<u>1,108,186</u>
Cash flows from investing activities:				
Collections of note receivable principal	560,000	560,000	169,954	729,954
Loan proceeds distributed	(1,175,296)	(1,175,296)	(1,000,000)	(2,175,296)
Interest received on notes receivable	1,078,233	1,078,233	0	1,078,233
Interest received on deposits and short-term investments	<u>257,524</u>	<u>257,524</u>	<u>24,515</u>	<u>282,039</u>
Net cash provided (used) by investing activities	<u>720,461</u>	<u>720,461</u>	<u>(805,531)</u>	<u>(85,070)</u>
Net cash and cash equivalents increase (decrease) for year	519,533	519,533	(801,984)	(282,451)
Cash and cash equivalents, beginning of year	<u>4,309,993</u>	<u>4,309,993</u>	<u>1,097,800</u>	<u>5,407,793</u>
Cash and cash equivalents, end of year	<u>\$4,829,526</u>	<u>\$ 4,829,526</u>	<u>\$ 295,816</u>	<u>\$ 5,125,342</u>

Supplementary disclosures:

Note proceeds payable to McCormick County were \$66,005 at June 30, 1998.

Interest received on component unit notes receivable was \$1,879 and there were \$7,250 in loan loss recoveries in fiscal year 1998 on a note previously determined to be uncollectible.

Equipment with a cost of \$78,203 and a book value of \$5,412 were transferred to other state agencies during the fiscal year ended June 30, 1998.

A rental building with a cost of \$1,543,967 and a book value of \$1,354,185 was sold for \$1,175,000 during the fiscal year ended June 30, 1998. Costs associated with the sale were \$34,628.

Accounts payable of \$23,435 and accrued payroll, compensated absences and benefits of \$2,863 were forgiven during the year ended June 30, 1998.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

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, 1998**

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

**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.

During the fiscal year ended June 30, 1998, the SVD had no employees and all its office furniture and equipment was transferred to the Department of Commerce because its financial transactions and the accounting transactions are handled with other DOC activities.

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, 1998.

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

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

entity totals on the financial statements.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

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.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

*Budget Policy*

For the year ended June 30, 1998, the SVD received no State General Fund appropriation from the General Assembly. However, the 1997-98 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.

Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. 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. Most State agencies participate in the cash management pool; however, some agency accounts are not included in the 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.

The State's 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. Investments in the pool are recorded at cost. Amortization of premiums and discounts is allocated and reported as interest income. Interest earned by the agency's special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool.

Although the cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 3.

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

*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 are recorded at cost, less depreciation that should have been recorded from the time the assets were placed in service. The net amount is included in contributed capital.

Depreciation of buildings and vehicles is computed using the straight-line method based on estimated useful lives. Estimated useful lives are as follows:

Vehicles	5 years
Buildings	40 years

Depreciation recognized on assets acquired with contributed capital is closed to the contributed capital account.

*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

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

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) are classified as restricted assets on the balance sheet because their use 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.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

*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.

*Short-term Investments*

Short-term investments held by the SLRLF include a certificate of deposit with a maturity greater than 90 days but less than one year. The value of the certificate of deposit is stated at cost.

*Loan Origination Fees*

Non refundable fees associated with originating loans, net of costs, are amortized over the lives of loans.

*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.



**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

*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 1998 Appropriation Act included a program budget within the Department of Commerce budget of \$202,000 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, 1998.

Deposit Categories of Credit Risk:

- a) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- b) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- c) Uncollateralized.

Component Unit Investment and Credit Risk:

The SLRLF has only one investment, a certificate of deposit with a financial institution, which is 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, 1998, 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 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 the carrying amounts, market 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, 1998, categorized by risk:

	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>a</u>	<u>b</u>	<u>c</u>	<u>Balance</u>	<u>Amount</u>
DEPOSITS					

Primary Entity:

Deposits held by

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

the State Treasurer	\$ 4,829,526	\$ 0	\$ 0	\$ 4,829,526	\$
<u>4,829,526</u>					

Component Unit:

Deposits held by commercial banks	103,730	192,336	0	296,066	295,816
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Total Deposits	\$ 4,933,256	\$ 192,336	\$ 0	\$ 5,125,592	\$
<u>5,125,342</u>					

	<u>Carrying Amount</u>	<u>Market Value</u>
<b>INVESTMENTS</b>		
<u>Primary entity:</u>	\$ 0	\$ 0
<u>Component Unit:</u>		
Certificate of Deposit	\$ 140,000	\$ 140,000
Total Investments	<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 one 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 renovation was completed in fiscal 1994 and the building was leased to a food processing company. During fiscal 1996 the company defaulted on its lease, and 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.

The balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as Capital Improvement bond Proceeds Receivable. In April 1996 the State Budget and control Board approved using the entire balance to provide water and sewer to an industrial park located in Aiken County. A summary of the balances available from the authorization as of June 30, 1998 is as follows:

<u>Act R.256 of 1991</u>	
Total authorized	\$4,500,000
Amount drawn in prior years	3,021,506
Amount drawn in current year	<u>680,310</u>
Balance authorized	<u>\$ 798,184</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.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

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, 1998 was \$694,265. Of this amount \$460,523 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, 1998 was \$2,070,014 which is greater than the ten percent minimum required.

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, 1998 was \$67,630. During fiscal 1998, \$560,000 principal was paid on the January 1991 note.

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, 1998:

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

<u>Inception</u>	<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	<u>1,139,070</u>
Total	<u>\$ 13,815,704</u>

Of the \$1,139,070 drawn in January 1998, \$66,005 had not been distributed as of June 30, 1998. This amount is included on the balance sheet as note proceeds payable to McCormick County. Of the total drawn in January, 1997, \$102,231 was paid to McCormick County in fiscal 1998.

*Lake Russell Project*

The SVD also has a note receivable from a developer for \$104,364 (with a net present value of \$98,923). As discussed in notes 7 and 8, SVD made this loan to Freshwater Resorts, LLC, under terms of a contract with Freshwater to develop a resort and retirement community at Lake Russell in Abbeville County, South Carolina. This note is a companion to the note discussed below issued to Freshwater by the SLRLF. As discussed in notes 7 and 9, at June 30, 1998, Freshwater had defaulted on the contract and management established an allowance equal to the discounted balance of the note and wrote off the note against the allowance.

**Savannah Lakes Regional Loan Fund**

SCRLF loans receivable at June 30, 1998, consisted of the following:

\$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 1998, \$7,250 was recovered.

\$ 78,738

\$1,000,000 loan to Freshwater Resorts, LLC, made in the current fiscal year. (See note 7.) Interest was abated for the twelve month period from the date the first advance was made. As of June 30, 1998, the loan is in default and it

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

is unlikely the loan will be repaid. Therefore, the loan is fully reserved in allowance for loan losses

	931,000
	1,009,738
Less, Allowance for Loan Losses	<u>(1,009,738)</u>
	<u>\$ 0</u>

## 6. CHANGES IN CONTRIBUTED CAPITAL

During the years reported, contributed capital changed as follows:

	Savannah Valley Development	Revolving Loan Fund	Total Reporting Entity (Memorandum Only)
Contributed capital, July 1, 1997	\$ 4,552,496	\$ 1,020,000	\$ 5,572,496
Less, depreciation on assets purchased with contributed assets	(37,974)	0	(37,974)
Less, residual equity transfer (note 14)	<u>(5,412)</u>	<u>0</u>	<u>(5,412)</u>
Contributed capital, June 30, 1998	<u>\$ 4,509,110</u>	<u>\$ 1,020,000</u>	<u>\$ 5,529,110</u>

## 7. WORK IN PROCESS

Work-in-process at June 30, 1998 consisted of the following:

Land	\$ 962,152
Development studies and professional fees	<u>506,481</u>
	1,468,633
Less value of land and associated development costs sold during fiscal 1997 (see note 8)	(114,231)
Less allowance to reduce project to net realizable value	<u>(504,905)</u>
	<u>\$ 849,497</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 10,900 acres owned by the SVD, leased by the SVD (see note 10) 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. Significant terms of the contract are as follows:

- 1.) Freshwater purchased some 87 acres of land from the SVD in February 1997 for \$104,364, all of which was financed by the SVD (see Notes 8 and 9).
- 2.) The SVD agreed to provide a \$1,000,000 reimbursement grant to the Town of Calhoun Falls to be used to provide infrastructure on the property. Work on the infrastructure began in fiscal 1997, and the SVD reported grant

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

expense of \$74,066 in that year. During 1998, Calhoun Falls requested and received reimbursements of \$514,580 from the SVD. As of June 30, 1998, the balance remaining to be paid under terms of the grant is \$411,354.

3.) The SVD agreed to pay up to \$35,000 to assist in relocating a cemetery on the property. The amount actually required to complete the project during fiscal 1998 was \$32,186. This amount was included in work in process.

4.) The SLRLF agreed to provide a matching loan of up to \$1,000,000 which was to be used to finance certain aspects of construction in the project. The SLRLF loaned the entire \$1,000,000 to Freshwater during fiscal 1998. (See notes 5 and 9). As required by the agreement, as Freshwater sold lots in the development, it repaid principal on this loan. During fiscal 1998, Freshwater repaid \$69,000.

5.) As the project proceeds, Freshwater agreed to purchase and lease certain property from the SVD, agreed to certain property, and agreed to develop the community. The SVD is obligated to assist the developer by obtaining approval for the subleases, by granting options on successive phases of the project, by providing assistance to the developer with respect to fee-in-lieu of property taxes, enterprise zone treatment, advertising and promotion, and clean up,

6.) The developer agreed to pay \$1 per year for up to 35 years to lease approximately 200 acres of land in the project (see note 10) and has an option to purchase the land for \$1,200 per acre. The SVD has agreed to finance any such purchases. Loan principal will be repaid by the developer as individual lots are sold at the rate per lot of 120 percent of principal plus accrued interest divided by the number of parcels for which payment has not been made. Interest will be computed at prime, not to exceed 10 percent, but will be abated for the first twelve months of the loan.

7.) Freshwater agreed to obtain a commercial loan to match the \$1,000,000 loan from SLRLF. The SVD agreed to subordinate any first mortgage position on the property so that the developers could obtain this loan, provided terms of such debt are approved by the SVD and to the extent the terms and uses of such debt affect the value of the property and SVD's security interest in it. Accordingly, during fiscal 1998, Freshwater obtained \$1,000,000 financing from a bank which was collateralized by a first mortgage on approximately 80 of the 87 acres purchased in 1997.

During fiscal 1998 the company made some progress on the project. 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. Ten lots were sold during the year to future homeowners.

However, in June 1998, the SVD notified Freshwater that it was in default on the contract. The SVD determined that the loan funds advanced by the SLRLF had not been used for purposes specified in the contract. Further, progress on the project was not occurring at the rate specified in the contract, and two of Freshwater's subcontractors filed mechanics liens on 77 acres sold to Freshwater in February 1997 and on some 200 acres of the land leased to Freshwater. One of these liens was for \$733,173, and the other was for \$4,488,500 (see note 16).

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 notes 5 and 9.)

At June 30, 1998, the SVD was negotiating with Freshwater for return of the unsold portion of the 87 acres it purchased in exchange for termination of the contract, forgiveness of Freshwater's debts to both the SVD and the SLRLF, and payoff of Freshwater's approximately \$1,000,000 principal and accrued interest payable to the commercial bank for the matching loan. It is not certain that Freshwater will agree to the SVD offer.

Management hopes to find another private company to complete the project. However, since it is not certain that the SVD will be able to secure the return of the unsold portion of the 87 acres and that the project will be completed, management has established an allowance of \$504,905 to reduce the carrying value of the work in process to net realizable value. It is not

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

certain what the total cost to complete this project will be (see note 17.)

**8. PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 1998, management discovered that the SVD's financial statements for the year ended June 30, 1997 omitted the sale of some 87 acres of land at the Lake Russell property to Freshwater Resorts, LLC. As discussed in note 7, this land was sold to Freshwater for \$104,364 under terms of a five year note receivable as required by the terms of the development agreement with Freshwater. The note specified that no interest would be charged for the first year. Accordingly, the SVD should have computed the loss on the sale using the discounted value of the \$104,364 note receivables. Management estimates this amount to be \$98,923.

Work in process at the date of the sale was \$1,436,447. The 87 acres represented approximately eight percent of the total development. Accordingly, the cost of the sale which should have been reported was \$114,231. The resulting net loss from the sale of the land was \$15,308.

The prior period adjustment was made as follows:

Retained earnings, beginning of year as previously reported	\$ 2,904,776
Prior period adjustment	<u>15,308</u>
Retained earnings, beginning of year as restated	<u>\$ 2,889,468</u>

**9. BAD DEBT EXPENSE**

**Savannah Valley Development**

As discussed in note 7, management determined that the note receivable for the sale of the land to Freshwater was uncollectible. Accordingly, during fiscal 1998, an allowance equal to the \$98,923 discounted value of the balance of the note was established and subsequently the receivable was written off against the allowance.

**Savannah Lakes Regional Loan Fund**

As discussed in note 7, management determined that the SLRLF note receivable from Freshwater Resorts, LLC was uncollectible. Accordingly, during fiscal 1998, SLRLF established an allowance equal to \$931,000 remaining to be repaid.

**10. 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 subject to the terms of the development agreement discussed in note 7; however, as of June 30, 1998, this land was not yet under sublease to the project developer. 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 1998 was \$16,455.

As discussed in note 7, the SVD leases some 200 acres of land which it owns at Lake Russell to Freshwater Resorts. Annual rental is \$1 through March 2032 or the date on which Freshwater exercises its option to purchase the land, whichever is sooner.

**11. SALE OF RENTAL BUILDING**

During the year ended June 30, 1994, the SVD entered into an operating lease with a food processor to lease a building the SVD renovated in Aiken County. In April 1995, the lessee was placed in receivership, and in June 1996, operations were terminated. The building was sold in June 1998.

Sales price of the building was \$1,175,000. Cost of the building was \$1,543,967. Book value was \$1,354,185. Costs

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

associated with the sale were \$34,628. Loss on the sale of the building was \$213,813.

When the sale was closed, because the tenant was a manufacturer, \$100,000 was placed in escrow to pay for costs of possible environmental remediation. This amount appears on the balance sheet under the caption "Escrow Proceeds Receivable". Subsequent to year end, the SVD received the entire amount.

When the building was renovated, the SVD entered into an agreement with Aiken County under which the SVD would pay a fee in lieu of taxes for the property. As of June 30, 1997, management was negotiating to have this agreement rescinded retroactively to 1996 and to restore the building's tax exempt status. The fee in lieu of taxes due as of June 30, 1997 for 1996 was \$23,435. At June 30, 1997, this amount was included in the income statement and in the balance sheet under the caption, accounts payable. During fiscal 1998, negotiations to rescind the fee were successful and the SVD recognized forgiveness of debt income (see note 13).

## **12. 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. However, services provided by the Department of Commerce (DOC) during fiscal 1998 were not sufficient to warrant reimbursement. In addition, DOC elected to forgive the \$2,863 payable to it at June 30, 1997 for accrued payroll, compensated absences, and benefits. The SVD recognized forgiveness of debt income for this amount (see note 13).

During fiscal 1998, SVD completed the transfer of all its office equipment to DOC. (See note 14.)

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, 1998, the SVD made a direct \$680,310 grant to Aiken County for water and sewer construction (as discussed in note 14) and a grant of \$514,580 to the Town of Calhoun Falls for the project discussed in note 7. None of these amounts was payable at June 30, 1998.

Under an agreement with JEDA (see Note 1), the Savannah Lakes Regional Loan Fund paid Carolina Capital Investment Corporation \$5,642 in management fees for the year ended June 30, 1998, all of which was payable at year end. The fee is .05% of the outstanding loan portfolio balance, computed monthly.

## **13. FORGIVENESS OF DEBT INCOME**

During the year ended June 30, 1998, the SVD recognized forgiveness of debt income totaling \$26,298. This amount included \$23,435 which was accrued at June 30, 1997 for fees in lieu of taxes on the rental building in Aiken County and reported as accounts payable (see note 11) and \$2,863 of accrued salaries, compensated absences, and related benefits payable to the Department of Commerce at June 30, 1997 (see note 12).

## **14. RESIDUAL EQUITY TRANSFER**

During fiscal year 1998, all SVD equipment except a vehicle was transferred to the Department of Commerce. Assets transferred had a cost of \$78,203 and book value of \$5,412. Since all the transferred assets were part of contributed capital transferred by governmental funds to the proprietary fund, the residual equity transfer of \$5,412 reduced contributed capital as of June 30, 1998. (See note 6.)

## **15. FUND EQUITY**



**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1998**

At June 30, 1998, the SVD's retained earnings include an unreserved deficit of \$839,807, and the SLRLF reports a \$589,524 deficit in retained earnings. Both deficits have resulted because expenses have exceeded revenues. Management hopes to eliminate these deficits by finding a developer to take over the Lake Russell project (see notes 7 and 16) who will assume all Freshwater liabilities, including the \$104,364 note payable to the SVD, the \$931,000 note payable to the SLRLF, and the agreement to purchase the land remaining at Lake Russell.

**16. SUBSEQUENT EVENT**

As discussed in note 7, as of June 30, 1998, mechanics liens totaling \$5,221,673 had been filed on some 77 acres of land purchased from the SVD by Freshwater Resorts, LLC and on approximately 200 acres of the land leased by the SVD to Freshwater. These liens were filed by Freshwater subcontractors. The subcontractors who filed these liens had until September 1998 to bring foreclosure actions. They allowed their liens to expire without such actions.

**17. CONTINGENCY**

The contractors may have allowed their mechanics liens discussed in note 16 to expire as part of an agreement with the SVD to deed to them some or all of the SVD's property at the project if a developer can't be found to replace Freshwater (see note 7). It is not certain that this agreement exists and if it does, whether Freshwater will agree to the agreement which SVD is attempting to negotiate with it for return of the land in order for it to be deeded to the subcontractors (see note 7). Further, it is not certain whether a developer to replace Freshwater will be found.

**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 20, 1998

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, 1998, and have issued our report thereon dated August 20, 1998. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the SVD's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying letter dated August 20, 1998 and identified as "Auditor's Comments".

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management and the Office of the State Auditor. However, this report is a matter of public record and its distribution is not limited.

WILDMAN & RICHARDS, LLP  
Certified Public Accountants

## AUDITOR'S COMMENTS

August 20, 1998

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

In planning and performing our audit of the financial statements of the Savannah Valley Division of the Department of Commerce (the SVD) for the year ended June 30, 1998, we considered its internal control 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. However, we noted certain matters involving the internal control that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the SVD's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

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 errors or irregularities 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.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

### *Management's Communication with Accounting Staff and Knowledge of Transactions*

The SVD is involved in a very complicated contract with a private company to develop property which the SVD owns in Abbeville County. We noted during our audit that the SVD's accounting staff was not informed regarding the terms of this contract and the transactions resulting from it. For example, we determined that management did not inform the accounting staff that the SVD sold some 87 acres to the developer during the fiscal year ended June 30, 1997. Correcting this error required a prior period adjustment in the current year.

Moreover, we also determined that management was not certain about terms or existence of some subsequent related agreements. Specifically, we determined that an agreement may exist to, if certain events occur, deed some or all of the project property to a subcontractor in exchange for the subcontractor's forgiveness of debts owed to it by Freshwater, LLC, the SVD's project developer. Management was unable to provide documentation regarding the existence of this agreement but did indicate that it may exist. We qualified our opinion for the current year because it is not certain that the agreement exists, if it does exist whether it is enforceable, and if it is not enforceable, what recourse the subcontractor may take against the SVD for breach of an agreement that it may think exists.

Sound internal control requires that management be knowledgeable about transactions it authorizes and that it inform accounting staff regarding complex transactions and provide adequate documentation of these transactions which is retained in the accounting files. We recommend that SVD management provide accounting staff with complete information about SVD contracts and related transactions. Moreover, we recommend that management be thoroughly familiar with the agreements its attorneys make on its

behalf. We also recommend that management include on its team working with this project someone knowledgeable about financial disclosures.

This report is intended for the information and use of the Office of the State Auditor and the SVD's management. This restriction is not intended to limit distribution of this report, which is a matter of public record.

WILDMAN & RICHARDS, LLP  
Certified Public Accountants

### **MANAGEMENT'S RESPONSE TO AUDITOR'S COMMENTS**

Management has taken action to insure that the problem noted does not recur.