

**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, 2004**

State of South Carolina



Office of the State Auditor

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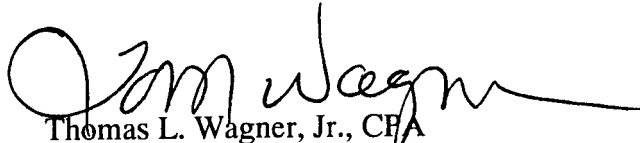
September 27, 2004

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, 2004, 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

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
FINANCIAL STATEMENTS  
Year Ended June 30, 2004**

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**WALDA WILDMAN, LLC**  
CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

August 23, 2004

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, 2004, 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 statement 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 opinion.

As described in note 1 to the financial statements, the financial statements of the SVD are intended to present the financial position, results of operations, and cash flows of only that portion of the funds of the 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, 2004, 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, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the SVD at June 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 23, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering 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, 2004**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 437,535
Interest receivable on deposits	89
Total unrestricted current assets	<u>437,624</u>

Restricted current assets:

Cash and cash equivalents	
Note payable debt service and sinking funds	3,193,911
Lake Russell project escrow deposits	62,281
Total restricted cash and cash equivalents	<u>3,256,192</u>
Interest receivable on deposits	28,067
Interest receivable on notes receivable	283,364
Total restricted current assets	<u>3,567,623</u>

Restricted non-current assets:

Notes receivable	14,983,215
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Capital assets

Work-in-process, net of \$1,448,320 valuation allowance	956,874
Land, net of \$63,318 valuation allowance	1
Total capital assets	<u>956,875</u>

Total assets	<u>19,945,337</u>
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**LIABILITIES**

Current liabilities payable from restricted assets:

Lake Russell project escrow liability	62,281
Accounts payable	29,963
Interest payable	499,440
Total current liabilities payable from restricted assets	<u>591,684</u>

Non-current liabilities payable from restricted assets:

Notes payable	14,983,215
Total non-current liabilities	<u>14,983,215</u>

Total liabilities	<u>15,574,899</u>
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**NET ASSETS**

Invested in capital assets	956,875
Restricted for debt service	2,975,937
Unrestricted	437,626
Total net assets	<u>\$ 4,370,438</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, 2004**

Operating revenues:	
Gain on sale of assets	\$ 14,100
Operating expenses:	
Professional fees	87,716
Miscellaneous	20,656
Repairs and maintenance	45,012
Total operating expenses	<u>153,384</u>
Operating income (loss)	(139,284)
Non-operating revenues (expenses):	
Grant to other agency	(250,000)
Interest income on notes receivable	1,222,485
Interest income from deposits and short-term investments	139,970
Interest expense	<u>(1,222,485)</u>
Total non-operating revenues (expenses)	<u>(110,030)</u>
Income (loss) before transfers	(249,314)
Transfers in	511,285
Change in net assets	261,971
Net assets, beginning of year	<u>4,108,467</u>
Net assets, end of year	<u><u>\$ 4,370,438</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, 2004**

**Cash flows from operating activities:**

Payments from customers	\$ 14,100
Payments to suppliers and customers	(125,719)
Net cash provided (used) by operating activities	<u>(111,619)</u>

**Cash flows from non-capital financing activities:**

Transfers to other funds	(250,000)
Transfers from other funds	511,285
Principal payments on notes payable	(510,602)
Interest payments on notes payable	(1,239,505)
Net cash provided (used) by non-capital financing activities	<u>(1,488,822)</u>

**Cash flows from investing activities:**

Collection of escrow payments from borrower	1,680,802
Interest received on deposits and short-term investments	139,970
Net cash provided (used) by investing activities	<u>1,820,772</u>

Net cash and cash equivalents increase (decrease) for year 220,331

Cash and cash equivalents, beginning of year 3,473,396

Cash and cash equivalents, end of year \$ 3,693,727

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

Loss from operations	\$ (139,284)
Adjustments to reconcile net cash provided by operating activities:	
Change in assets and liabilities	
Increase (decrease) in accounts payable	29,963
Increase (decrease) in Lake Russell project escrow liability	(2,298)
Net cash provided (used) by operating activities	<u><u>\$ (111,619)</u></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, 2004**

**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.

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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 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, 2004**

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, 2004, 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, earnest money deposits for purchase of lots in the real estate owned by the SVD and a deposit from a developer interested in taking over development of the SVD's Lake Russell project (see note 5).

***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*

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*Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

***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 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, 2004. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails.

***Deposit Categories of Credit Risk:***

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

***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, 2004, 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.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
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With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

The following is a schedule of cash and investments at June 30, 2004, categorized by risk:

	Category			Bank Balance	Reported Amount
	1	2	3		
DEPOSITS					
Deposits held by the State Treasurer	\$ 3,693,727	\$ 0	\$ 0	\$ 3,693,727	\$ 3,693,727

### 3. NOTES PAYABLE AND RECEIVABLE

In order to facilitate development of Savannah Lakes Village, a residential development in McCormick County, the SVD agreed to borrow up to \$20 million from the State's Insurance Reserve Fund and lend these funds to McCormick County to pay for infrastructure within the development.

Through February 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. Total borrowings cannot exceed \$20 million. The SVD then loaned the money to McCormick County under the same terms and conditions under which it borrowed from the Insurance Reserve Fund. McCormick County is repaying 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, 2004 was \$776,937. As of June 30, 2004, 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, 2004 was \$2,248,630, 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 due on the notes in inverse order of series and of principal within a series. The balance of this account at June 30, 2004 was \$168,344. During fiscal 2004, \$510,602 principal was paid on the January 1992 note.

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 following is a schedule of the individual notes as of June 30, 2004:

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

Note Inception	Amount
January 1992	\$ 990,107
October 1992	121,238
January 1993	1,227,734
January 1994	2,690,812
January 1995	1,260,186
January 1996	1,569,410
January 1997	1,730,362
January 1998	1,139,070
January 1999	2,423,517
January 2000	1,224,262
January 2001	606,517
Total	\$ <u>14,983,215</u>

**4. CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>	<u>Due within One Year</u>
Notes payable, Insurance Reserve Fund	\$ <u>15,493,817</u>	\$ <u>0</u>	\$ <u>510,602</u>	\$ <u>14,983,215</u>	\$ <u>0</u>

**5. WORK IN PROCESS AND ESCROW LIABILITY**

In 1992, the SVD began work to develop a golf resort and retirement community at Lake Russell near Calhoun Falls, South Carolina. Work-in-process on this project at June 30, 2004, consists of \$2,405,194 paid for the land and related costs, net of valuation allowances totaling \$1,448,320. The property includes some 2,900 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.

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, but 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. Fluor Daniel and another project subcontractor filed mechanics liens on the project 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 some \$5 million it was owed by the developer. Also, the developer was required to turn over to the SVD the escrow deposits made by prospective lot purchasers.

Since the winter of 1999, the SVD has allowed prospective purchasers to cancel their contracts and receive refunds of their escrow deposits. As of June 30, 2004, eight potential buyers continued to maintain \$12,280 in escrow with the SVD to purchase lots when they are available.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
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From fiscal 2000 through the end of fiscal 2002, a contract to complete the project was pending with another developer. The proposed agreement acknowledged that, in order to facilitate termination of agreement with the prior developer, Fluor Daniel is owed in excess of \$5.3 million because it had satisfied its own mechanics lien as well as that of another company. The agreement further specified that the \$530,000 down payment required by the deal would be paid to Fluor Daniel and that the developer would execute a note payable to Fluor Daniel for \$4,240,000. The agreement was never closed, and the proposed private developer withdrew from the project in June 2002.

In the summer of 2002, SVD staff advertised for another developer. In April 2003, a memorandum of understanding was signed by a new developer, the SCDOC and Fluor Enterprises, Inc. (formerly Fluor Daniel), setting forth general terms for completion of the project and providing a due diligence period for the developer, during which the company could assess the project. When the memorandum of understanding was signed, the developer deposited \$50,000 earnest money with the SVD which, along with the remaining lot purchase deposits, is reported in the balance sheet as the "Lake Russell project escrow liability".

At its June 15, 2004 meeting, the South Carolina Budget and Control Board approved the Department of Commerce's request for negotiation of a development and purchase agreement with the developer subject to approval of the documentation by staff of the Board.

At June 30, 2004, a final agreement with the developer was pending. Among other provisions of the draft agreement, at closing, Fluor Enterprises will receive the developer's \$50,000 deposit, plus an additional \$1.75million from the developer, which will fully satisfy any obligations to it in connection with the project. In exchange for the developer's payment, the SVD will transfer to the developer a portion of the land it owns fee simple. The SVD will receive no cash at closing. Subsequently, as the developer reaches certain benchmarks, the SVD will transfer additional land and assign various leases, permits and licenses associated with the property. As subsequent transfers are completed, the SVD will receive cash. The additional transfers are contingent on passage of legislation currently pending in the United States Congress to allow the U. S. Army Corps of Engineers to transfer certain land to the State of South Carolina prior to its transfer to the developer. The agreement also specifies that the SVD will 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.

As part of the pending agreement, subsequent to year end, the SVD refunded all remaining escrow deposits to prospective purchasers.

If the pending agreement with the developer does not close, it is not clear whether possible verbal commitments to Fluor Enterprises regarding its position in any potential contract may affect the SVD's ability to realize cash flow from the project, and it is not certain that a suitable developer will be found in the future.

## 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

Capital Assets Not Being Depreciated:

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

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT  
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004**

**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. This land is part of the property which is the Lake Russell project development discussed in note 5. 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 2004 was \$45,012.

**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 at little or no cost for the SVD. During fiscal 2004, the SVD paid \$12,139 to the Department of Commerce to defray some of these expenses.

During the year, the SVD also had transactions with other agencies of the State of South Carolina and its political subdivisions. The SVD paid the Town of Calhoun Falls \$24,000 for assistance in maintaining a boat ramp located on the Lake Russell property discussed in note 7. The SVD also made a \$250,000 grant to the South Carolina Department of Natural Resources. Neither of these amounts was payable at year end. The SVD received \$511,285 distribution from the Savannah Lakes Regional Loan Fund (SLRLF), which was liquidated during the year. The SLRLF was funded by a transfer from the SVD, and terms of the transfer required the SLRLF to return any remaining cash to the SVD if it was liquidated. The SVD also received \$14,100 from the South Carolina Department of Transportation (SCDOT) for sale of approximately 2.7 acres 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, 2004**

	2004		2003		Net Change
Charges for services	1,236,585	\$	1,260,318	\$	(23,733)
Operating grants and contributions	139,970		156,780		(16,810)
Capital grants and contributions	-		-		-
Less: expenses	(1,625,869)		(1,283,106)		(342,763)
Net program revenue (expense)	(249,314)		133,992		(383,306)
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	-		(66,074)		66,074
Total general revenue and transfers	511,285		(66,074)		577,359
Change in net assets	261,971		67,918		194,053
Net assets – beginning	4,108,467		4,040,549		67,918
Net assets – ending	\$ 4,370,438	\$	4,108,467	\$	261,971

**WALDA WILDMAN, LLC**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**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 23, 2004

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, 2004, and have issued my report thereon dated August 23, 2004. 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.

**Compliance**

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 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 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 internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

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

*Walda Wildman LLC*

WALDA WILDMAN, LLC  
Certified Public Accountant

**WALDA WILDMAN, LLC**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**AUDITOR'S COMMENTS**

August 23, 2004

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

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

**Transmittal of Note Receivable Payments**

While there is no requirement that McCormick County make monthly transmittals of the funds it collects monthly from the residents of Savannah Lakes Village, I noted that as of June 30, 2004, McCormick County is at least two months behind in remitting residents' payments to the SVD. Management should consider establishing a way of monitoring receipt of these payments in order to ensure timely remittance of payments by McCormick County.

*Walda Wildman LLC*

WALDA WILDMAN, LLC  
Certified Public Accountant

**WALDA WILDMAN, LLC**  
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**STATUS OF PRIOR YEAR'S FINDINGS**

August 23, 2004

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, 2003, I commented that while there is no requirement that McCormick County make monthly transmittals of the funds it collects from the residents of Savannah Lakes Village, the SVD received such payments in only nine months during the fiscal year ended June 30, 2003. 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. During the year ended June 30, 2004, I noted that the SVD received thirteen payments from McCormick County. Accordingly, at June 30, 2004, McCormick County was still at least two months behind in remitting residents' payments, and I noted no provision by management to ensure the timeliness of these payments. I have made a similar comment this year.

*Walda Wildman LLC*

WALDA WILDMAN, LLC  
Certified Public Accountant