

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

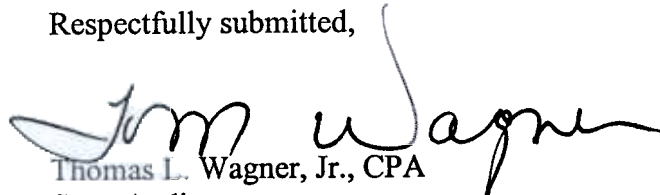
November 2, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Directors
South Carolina Jobs-Economic Development Authority
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Jobs-Economic Development Authority for the fiscal year ended June 30, 2001, was issued by Rogers & Laban, PA, 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/sag

**SOUTH CAROLINA JOBS – ECONOMIC
DEVELOPMENT AUTHORITY**

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2001

SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY

**TABLE OF CONTENTS
JUNE 30, 2001**

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Balance sheet	2
Statement of revenues and expenses	3
Statement of changes in retained earnings	4
Statement of cash flows	5 and 6
Notes to financial statements	7 - 23
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	24
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	25
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	26 and 27
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	28



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of South Carolina Jobs – Economic Development Authority ("JEDA") as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of JEDA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the 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 provides a reasonable basis for our opinion.

As described in Note 1, the financial statements of South Carolina Jobs – Economic Development Authority are intended to present the financial position, results of operations and the cash flows of its proprietary fund type of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of South Carolina Jobs – Economic Development Authority, an agency and enterprise fund of the State.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of South Carolina Jobs – Economic Development Authority as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America..

Our audit was performed for the purpose of forming an opinion on the financial statements of South Carolina Jobs – Economic Development Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2001, on our consideration of JEDA's internal control over financial reporting and our 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 Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

Rogers & Laban, PA

Columbia, South Carolina
October 1, 2001



**SOUTH CAROLINA JOBS - ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**BALANCE SHEET
JUNE 30, 2001**

ASSETS

Cash and cash equivalents	\$ 5,616,824
Loans receivable, net of allowance for loan losses of \$148,000	1,343,213
Notes receivable	130,382
Other receivables	1,000
Subordinate interest in securitization trust, net of allowance for loss of \$196,731	658,081
Accrued interest receivable:	
Deposits and investments	10,203
Loans	14,799
Other real estate owned and held for sale	200,000
Other rental property owned, net of accumulated depreciation of \$2,969	<u>122,031</u>
TOTAL ASSETS	<u><u>\$ 8,096,533</u></u>

LIABILITIES AND FUND EQUITY

LIABILITIES:

Accounts payable and accrued expenses	\$ 1,783
Accrued payroll and related liabilities	854
Notes payable	130,382
Accounts payable - related party	167,658
Accrued compensated absences and related benefits	25,051
Funds held for others	<u>1,653,917</u>

TOTAL LIABILITIES	<u>1,979,645</u>
--------------------------	-------------------------

FUND EQUITY:

Contributed capital	260,005
Retained earnings	<u>5,856,883</u>

TOTAL FUND EQUITY	<u>6,116,888</u>
--------------------------	-------------------------

TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 8,096,533</u></u>
--	-----------------------------------

**SOUTH CAROLINA JOBS - ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2001**

Operating revenues:

Grant program income	\$ 317,289
Interest income on loans	94,194
Industrial revenue bond fees	85,875
Interest/investment income on deposits and investments	314,102
Bad debt recoveries	<u>32,339</u>

Total operating revenues

843,799

Operating expenses:

Grant expenses	4,309,239
Industrial revenue bonds administration fees	85,875
Personal services	100,018
Employer contributions	21,333
Contractual services	26,142
Supplies and materials	4,683
Fixed charges	39,812
Travel	25,834
Increase in allowance for loan losses	<u>66,156</u>

Total operating expenses

4,679,092

Operating income (loss)

(3,835,293)

Non-operating revenues (expenses):

Interest income on subordinate certificates	108,371
State appropriation revenues	125,000
Loan servicing fees	60,501
Loan servicing expense	(60,501)
Interest income - notes receivable	19,056
Interest expense - notes payable	(19,056)
Rental Income	13,542
Depreciation	(2,969)
Provision for gain(loss) on subordinate certificates	<u>32,069</u>

Total non-operating revenues (expenses)

276,013

Net income (loss)

\$(3,559,280)

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA JOBS - ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001**

Retained earnings - June 30, 2000	\$ 9,416,163
Net income (loss)	<u>(3,559,280)</u>
Retained earnings - June 30, 2001	<u><u>\$ 5,856,883</u></u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA JOBS - ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001**

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating income (loss)	\$ (3,835,293)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Rental income received	13,542
Increase (decrease) in allowance for loan losses	66,156
Accrued interest added to loans receivable principal	(4,893)
Interest/investment income on deposits and investments - reclassified to investing activities	(314,102)
(Increase) decrease in assets:	
Accrued interest receivable - loans	(3,106)
Other receivables	12,416
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	628
Accrued payroll and related liabilities	819
Payable to related party	2,270
Accrued compensated absences and related benefits	(1,452)
Receipt of funds held for others	891,818
Payment of funds held for others	(778,428)
Fund new loans	(150,000)
Loan principal collected	536,429
Loan servicing fees received	60,501
Loan servicing expense paid	(60,501)
Total adjustments	<u>272,097</u>

NET CASH USED BY OPERATING ACTIVITIES

(3,563,196)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations received	125,000
Repayment of notes payable	(107,342)
Interest paid - notes payable	<u>(19,056)</u>

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES

(1,398)

CASH FLOWS FROM INVESTING ACTIVITIES:

Principal collections on notes receivable	109,567
Interest received on subordinate certificates	108,371
Interest/investment received on deposits and investments	347,111
Interest received on notes receivable	19,969
Principal collections on subordinate certificates	109,449
Proceeds from sale of equipment held for sale	<u>138,889</u>

NET CASH PROVIDED FROM INVESTING ACTIVITIES

833,356

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(2,731,238)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

8,348,062

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 5,616,824

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA JOBS - ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

SUPPLEMENTAL DISCLOSURES

NONCASH INVESTING ACTIVITIES TRANSACTIONS:

Provision for gain(loss) on subordinate certificates	\$ 32,069
--	-----------

NONCASH OPERATING ACTIVITIES TRANSACTIONS:

Interest received on loans	\$ 110,144
----------------------------	------------

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of South Carolina Jobs – Economic Development Authority (JEDA) were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant of JEDA's accounting policies are described below.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

A primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

- (1) Determines its budget without another government's having the authority to approve and modify that budget.
- (2) Levies taxes or set rates or charges without approval by another government.
- (3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on the criteria, JEDA has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only JEDA (a primary entity).

The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of South Carolina Jobs – Economic Development Authority. Generally, all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State.

The Board of Directors, whose members are appointed by the Governor with the advice and consent of the Senate, is the governing body of JEDA.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Reporting Entity (Continued)

JEDA was created by Section 41-43-30 of the Code of Laws of South Carolina, as a quasi-public instrument of the State, to maintain and expand job opportunities through financial assistance to small and middle market businesses. JEDA functions as a fixed asset lender providing low interest loans for the acquisition of real estate, machinery and equipment. Loans are made through the packaging and issuance of "Industrial Revenue Bonds," Direct loans and "Guarantee of Loans." Also, JEDA works cooperatively with and through existing financial institutions statewide. JEDA services a small number of loans for others. JEDA also makes grants to qualifying entities under the Community Development Block Grant program.

The reporting entity is part of the State primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The accompanying financial statements present the financial position, results of operations and cash flows solely of JEDA and do not include any other funds of the State of South Carolina.

Fund Accounting

JEDA uses funds to report its financial position, results of operations and cash flows. 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. The accounts of JEDA are organized into the proprietary fund category.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Generally, when services from such activities are provided primarily to outside parties, the funds are classified as enterprise funds.

Enterprise funds account for activities that are self-sustaining, primarily through user charges, or are used when management wants to control or measure costs of services. JEDA is considered to be an enterprise fund in the proprietary fund group.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

All proprietary funds are accounted for using the flow of economic resources measurement focus. The accounting objectives are the determination of net income, financial position and cash flows. All assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The financial statements have been prepared 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. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Retained earnings represents the accumulated earnings of the fund.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

The accounting policies of JEDA conform to generally accepted accounting principles. JEDA applies all applicable GASB pronouncements and JEDA has elected to apply only those applicable standards issued by the Financial Accounting Standards Board on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Budget Policy

JEDA is granted an annual appropriation for administrative operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of summary object of expenditure appropriations by program within agency within budgetary fund. Budgetary control is maintained at the summary object of expenditure level of the agency entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist. Agencies may request transfers of appropriations among summary object categories and/or among programs within the same budgetary fund.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 72.14 as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

Agencies may charge vendor, interagency, and interfund payments for fiscal year 2001 to fiscal year 2001 appropriations in July 2001. Up to 10% of original State General Fund appropriations to an agency may be carried forward and expended in the next fiscal year. Any unexpended State General Fund monies as of June 30th in excess of 10% of original appropriations automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriations Act states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis method of accounting with several exceptions, principally the cash basis for payroll expenditures.

JEDA is a proprietary fund and generally accepted accounting principles do not require presentation of budget and actual comparisons for proprietary funds. Therefore, such comparison has not been presented. The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures.

Compensated Absences

State employees are entitled to accrue and carry forward at calendar year end a maximum of 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days, but are not entitled to any payment for unused sick leave. JEDA calculates the gross compensated absences based

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

on recorded balances of unused leave for which it expects to compensate employees for the benefits through paid time off or cash payments. The liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments. The net change in the liability is recorded in the current year in the applicable payroll expense.

Cash and Cash Equivalents

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

Because the State's internal 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 State's internal cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having a maturity date of three months or less.

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. JEDA records and reports its deposits in the general deposit account at cost and reports its deposits in the special deposit account at fair value. Investments held by the pool are recorded at fair value. Reported interest income on deposits and investments include interest earned, realized gains/losses, and unrealized gains/losses arising from changes in fair value of investments in the pool. 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. 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 percentage ownership in the pool.

Although the State's internal 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 2.

JEDA considers all highly liquid deposit accounts and investments with original maturities of three months or less at the time of acquisition to be cash equivalents.

Loans Receivable

Loans receivable are recorded at face amount less an allowance for loan losses. Loans transferred from other entities are recorded at their estimated realizable value which, in most cases, is the outstanding principal balance and as grant program income.

Allowance for Loan Losses

The allowance for loan losses is an estimate provided on the allowance method for financial statement purposes, based on a review and evaluation by management of the collectibility of the individual loans in the loan portfolios.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Bad Debt Recoveries

Bad debt recoveries are recognized as revenue when received.

Grant Program Income

Grant program income represents cash received and loans receivable transferred from other state and local government entities and nonprofit entities and income received under program income agreements. Generally, grant program income received must be expended for loans, grants, or administrative expenses based on regulations, if any, applicable to the various programs under which it was received, primarily Community Development Block Grant.

Grant Expense

Grant expense represents amounts paid to counties, municipalities and other eligible recipients for industrial development using Community Development Block Grant funds. This includes the administrative portion of the grants.

State Appropriations

JEDA is granted an annual appropriation by the General Assembly of the State of South Carolina in the form of an appropriation transfer. State appropriations are recognized as revenue when received.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2. DEPOSITS AND INVESTMENTS:

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts.

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$ 5,616,824	Cash on Hand	\$ 200
		Deposits with Financial Institutions	1,790,060
		Deposits Held by State Treasurer	2,486,984
		Investments	<u>1,339,580</u>
	<u>\$ 5,616,824</u>		<u>\$ 5,616,824</u>

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.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 2. DEPOSITS AND INVESTMENTS: (CONTINUED)

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 agents in the State's name. Information pertaining to the 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.

Other Deposits

The Authority's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

- (1) Insured or collateralized with securities held by the entity or by it's 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.

A summary of June 30, 2001 bank balances by credit risk category follows:

Category			Bank Balance	Reported Amount
1	2	3		
\$ 1,789,854			\$ 1,789,854	\$ 1,790,060

During the year, the Authority had other deposits in category 3. The highest balance in this category during the year was approximately \$1,662,000.

Investments

Legally authorized investments include obligations of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper.

All of JEDA's "other investments" are stated at fair value. Purchases and sales are accounted for on the trade date. Unrealized gains and losses on investments have been recorded. Realized gains and losses on securities transactions are recorded on the accrual basis. Earnings are recorded on the accrual basis.

JEDA's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. 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 or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 2. DEPOSITS AND INVESTMENTS: (CONTINUED)

the entity or its agent in JEDA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the entity or its agent in JEDA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in JEDA's name.

A summary of investments at June 30, 2001 by credit risk category follows:

	Category			Reported Amount	Fair Value
	1	2	3		
Government securities- overnight repurchase agreements	<u>\$1,339,580</u>			<u>\$1,339,580</u>	<u>\$1,339,580</u>
Common stock	<u>\$ -0-</u>			<u>\$ -0-</u>	<u>\$ -0-</u>

In addition to the repurchase agreements, the Authority received common stock in a company as consideration for the balance owed on a loan receivable in a prior year. The common stock was recorded at \$104,912 when received in the year ended June 30, 1998. The authority considered the stock to be worthless as of June 30, 1999 and adjusted the fair value through a valuation allowance account accordingly.

NOTE 3. LOANS RECEIVABLE:

Loans receivable at June 30, 2001 consisted of the following:

	CDBG Portfolio	CDBG (DED) Portfolio	EDA Portfolio	Totals
Loans receivable	\$ 479,648	\$ 773,103	\$ 238,462	\$ 1,491,213
Less, allowance for loan losses	<u>68,000</u>	<u>80,000</u>		<u>148,000</u>
	<u>\$ 411,648</u>	<u>\$ 693,103</u>	<u>\$ 238,462</u>	<u>\$ 1,343,213</u>

The loans are secured primarily by real estate, accounts receivable, and/or equipment. In some cases, personal guarantees are obtained from the principals involved. Maturities are from fiscal years 2002 to 2014 with interest rates from 3% to 9%.

The CDBG portfolio loans were originated by JEDA using Community Development Block Grant (CDBG) federal funds.

The CDBG (DED) Portfolio loans were originated from grants by the Department of Commerce Division of Economic Development (formerly part of the Governor's Office) to local governments. The local government used them to build or buy a building which was then sold to a private industry under a financing arrangement. The loans were assigned by the local governmental entities to JEDA. The grants were funded by Community Development Block Grant federal funds. No new loans were transferred during the year ended June 30, 2001.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 3. LOANS RECEIVABLE (CONTINUED):

The EDA portfolio loans were transferred to JEDA from the Central Midlands Regional Planning Council during 1997. The principal balances on the loans at the time they were transferred totaled \$95,683 which was recorded as contributed capital. In addition, JEDA received \$164,322 in fiscal year 1997 which is to be used for additional EDA loans which is included in contributed capital. The funds are to be used for a revolving loan fund to make loans for business start up and expansion in Richland, Newberry and Fairfield Counties. The funds were transferred with the approval of the U.S. Department of Commerce, Economic Development Administration. The loans are collateralized by mortgages on real estate; furniture, fixtures and equipment; inventory; and, accounts receivable.

The increase (decrease) in the allowance for loan losses on the Statement of Revenues and Expenses for the year ended June 30, 2001 is broken down as follows:

CDBG Portfolio	\$ (13,844)
CDBG (DED) Portfolio	<u>80,000</u>
	<u>\$ 66,156</u>

NOTE 4. SECURITIZATION OF LOAN PORTFOLIO:

On April 13, 1994, JEDA sold a portion of its loan portfolio. Under the agreement, a grantor trust was created and loans with principal balances totaling \$11,140,715 were transferred to the trust. First Union National Bank acts as trustee for JEDA. The trust sold senior certificates entitling the purchaser, McArthur Foundation, to 66-2/3% of the aggregate loan balance and interest at a fixed rate of 7.45%. The certificates were sold for \$7,068,106. The senior certificates are paid from 66-2/3% of principal repayments as collected from borrowers. Scheduled payments must be recalculated when prepayments are made. JEDA is paid the residual, which may be less than 33-1/3% because of delinquencies, deferments, or defaulted loans and differences in interest rates on individual loans, however, JEDA is not liable for any deficiencies in payments to the senior certificate holder. Distributions of principal and interest are made from the trust semiannually on June 20 and December 20 of each year through the fiscal year ended June 30, 2007.

In order to value JEDA's residual investment in the grantor trust, a computation was made to determine the gain or loss on the sale. Cash flows from principal and interest were projected on the portfolio, reduced by servicing costs and estimated loan defaults based on historical experience. The present value of the net cash flows was computed to determine the percentage of the portfolio sold which was then applied to the portfolio. \$7,857,544 is the portion of the portfolio which was sold for \$7,068,106, resulting in a loss of \$789,438.

The \$789,438 reduction in the investment may be taken into income in subsequent years using the level yield method in accordance with generally accepted accounting principles if the estimated loan defaults are not realized. It is also probable that the subordinate investment will be further reduced if defaults exceed projected amounts. Principal distributions from the trust will be recorded as reductions in the subordinate investment in securitization trust.

Using the same formula, used to value the certificates at the date of sale, the future cash flows were projected at June 30, 2001, resulting in a valuation increase of \$32,069 which is reported as part of the provision for gain (loss) on subordinate certificates on the statement of revenues and expenses. A gain results when the estimated loan defaults are not realized.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 4. SECURITIZATION OF LOAN PORTFOLIO (CONTINUED):

Gross receivable, beginning	\$ 964,261
Less, principal payments received	<u>(109,449)</u>
Gross receivable, ending	854,812
Allowance for loss on Subordinate Certificates	<u>(196,731)</u>
Estimated value, ending	<u>\$ 658,081</u>

JEDA receives additional funds if the collections on the underlying receivables are higher than anticipated. No additional funds were received during the year ended June 30, 2001.

Carolina Capital Investment Corporation (CCIC) processes payments for the loan portfolio included in the grantor trust for a servicing fee of 1% annually of the aggregate outstanding loan balance, computed monthly. Servicing fees paid to CCIC by the trust during the year ended June 30, 2001 totaled \$20,248 (See Note 7.)

NOTE 5. NOTES PAYABLE/NOTES RECEIVABLE:

JEDA borrowed \$321,472 under six notes payable during prior fiscal years from a local financial institution. Two of the notes were paid off in the current year. The notes are payable in monthly principal and interest payments with a balloon payment due for any unpaid principal balance on the maturity date. The interest rates range from 8.75 to 9% per annum. These loans were drawn down under a \$2,000,000 line of credit which has expired and which provided that JEDA would have no liability beyond the amount that would be realized from the collateral in case of default for the loans described in the following paragraph.

The funds borrowed under the notes were loaned to Carolina Business Resources, Inc. (CBR). CBR used the funds to make loans to minority businesses. CBR repays the loans to JEDA in the same amount which JEDA makes payments on the notes payable. The collateral under the loans receivable due to CBR has been assigned as collateral for the notes payable.

The balance owed on these notes as of June 30, 2001 and their maturity dates and monthly payment requirements are as follows:

	<u>Balances</u>	<u>Maturity Dates</u>	<u>Monthly Payment</u>
	\$ 46,285	04/24/2002	\$ 828
	9,521	10/24/2002	634
	19,736	04/15/2003	1,038
	<u>54,840</u>	10/15/2004	1,548
Total	<u>\$ 130,382</u>		

JEDA received interest income of \$19,056 and incurred interest expense of \$19,056 on the notes receivable and notes payable which is included in non-operating revenue (expense).

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 5. NOTES PAYABLE/NOTES RECEIVABLE: (CONTINUED)

Future maturities of the notes payable as of June 30, 2001 are as follows:

Year Ended June 30,	Principal	Interest	Totals
2002	\$ 78,880	\$ 9,411	\$ 88,291
2003	26,749	3,271	30,020
2004	17,129	1,487	18,616
2005	<u>7,624</u>	<u>156</u>	<u>7,780</u>
Totals	<u>\$ 130,382</u>	<u>\$14,325</u>	<u>\$ 144,707</u>

NOTE 6. INDUSTRIAL REVENUE BONDS:

JEDA is authorized by South Carolina Code of Laws Section 41-43-110 to administer an industrial revenue bond program to benefit businesses in South Carolina. JEDA charges each borrower a nonrefundable application fee of \$500 and a closing fee established by the State Budget and Control Board based upon the face value of the bonds to be issued.

JEDA's contract with CCIC requires it to pay an amount equal to all compensation JEDA receives for administering the Industrial Revenue Bond Program. During the year ended June 30, 2001, JEDA paid CCIC \$85,875, which is included in Industrial Revenue Bonds Administration Fees expense.

A trustee handles the industrial revenue bond monies. Bonds are sold either in public markets or in private placements at the option of the borrower. The trustee issues the funds to borrowing businesses. The borrower makes principal and interest payments to the trustee who, in turn, pays the bondholder(s).

Industrial revenue bonds are generally secured by an irrevocable letter of credit (LOC). Under the terms of the LOC, when certain specified conditions of default occur and the borrower business does not make its payments, the financial institution issuing the letter of credit repays the bondholders and holds the business liable for payment of any advances made under the LOC. The letter of credit is secured by the assets of the business. Thus, neither the full faith and credit nor the taxing power of JEDA, the State of South Carolina, or any of its political subdivisions are pledged to secure payment of the bonds.

Governmental accounting standards require JEDA to present the outstanding balance of all conduit debt at fiscal year end. The outstanding principal balance of conduit debt issued subsequent to June 30, 1995 was approximately \$1,334,000,000 as of June 30, 2001. The aggregate amount for the conduit debt issued prior to July 1, 1995 is not available.

NOTE 7. RELATED PARTY TRANSACTIONS:

Carolina Capital Investment Corporation

Carolina Capital Investment Corporation (CCIC) is a nonprofit organization. Its Board of Directors is made up of three JEDA directors and six non-JEDA directors. In an effort for JEDA to become a true enterprise agency of the State of South Carolina and attain self-sufficiency, management services have been provided by CCIC since July 1, 1992. In exchange for the management and administration agreement, CCIC has assumed responsibility for leases for office space and other equipment, personnel, and furniture and equipment formerly owned by JEDA.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 7. RELATED PARTY TRANSACTIONS: (CONTINUED)

CCIC also provides marketing services for JEDA's loan programs, performs underwriting and credit analysis for potential loans, prepares loan documents and closes loans. In addition, CCIC processes payments for JEDA's loan portfolio.

JEDA's contract with CCIC requires it to pay an amount equal to all compensation JEDA receives for administering the Industrial Revenue Bond Program. For the year ended June 30, 2001, JEDA paid CCIC \$85,875 related to industrial revenue bond fees revenue and this amount is included in industrial revenue bond administration fees expense. JEDA assigned to CCIC its 3% loan servicing fee on the loan portfolio sold during fiscal year 1996. For the year ended June 30, 2001, JEDA paid CCIC \$60,501 in loan servicing expense (nonoperating expense).

JEDA pays CCIC for administrative expenses incurred under the Community Development Block Grant Program. For fiscal year 2001, \$95,867 for CCIC is included in grant expenses.

JEDA pays CCIC for loan program, loan collection and management services based on CCIC's actual costs allocated to JEDA projects and in accordance with the terms of its agreement with CCIC. JEDA reports these expenses as follows:

JEDA Expenses to CCIC

Contractual Services	
Telephone	\$ 3,254
Contractual Services	3,706
Maintenance and Repairs	2,434
Marketing and Promotion	<u>9,465</u>
	<u>18,859</u>
Supplies and Materials	
Printing	445
Postage	624
Office Supplies	1,620
Small Equipment	<u>847</u>
	<u>3,536</u>
Fixed Charges	
Rent	18,295
Parking	124
Dues and Subscriptions	1,204
Equipment Lease	196
Miscellaneous	<u>2,281</u>
	<u>22,100</u>
Travel	
Vehicle Lease	5,903
Conferences	<u>677</u>
	<u>6,580</u>
Loan Servicing Expense (nonoperating)	<u>60,501</u>
Total	<u>\$ 111,576</u>

Accounts Payable-Related Party (CCIC)

For Loan Administration Fees, Management Fees, Revenues and Expense and Cost Recovery Fees	<u>\$ 167,658</u>
--	-------------------

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 7. RELATED PARTY TRANSACTIONS: (CONTINUED)

JEDA receives various administration services from CCIC for which no compensation is paid. The value of these services is not readily determinable.

State of South Carolina

JEDA has significant transactions with the State of South Carolina and various agencies.

Services received at no cost from State agencies include maintenance of limited accounting records from the Comptroller General; composite investing functions from the State Treasurer; and legal services from the Attorney General.

Other services received at no cost from the various divisions of the State Budget and Control Board include retirement and health plan administration, audit services, grant services, personnel management, procurement services, assistance in the preparation of the State Budget, review and approval of certain budget amendments, and other centralized functions.

JEDA had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plans contributions and insurance coverage. Payments were also made for unemployment and workers' compensation coverage for employees to other State agencies. The amount of 2001 expenditures applicable to these related party transactions is not readily available.

For fiscal year 2001, JEDA received \$125,000 in State appropriations from the Budget and Control Board, Office of Local Government as set forth in Appropriation Act Section 63D for fiscal year 2001. The CDBG program requires a certain amount of State funds be expended, the State appropriations are used to meet the federal match requirements. For fiscal year 2001, JEDA expended \$117,225 of State appropriations for administration of the CDBG loan program. Section 41-43-50 of the 1976 Code of Laws of South Carolina authorizes JEDA to retain unexpended funds regardless of the source and expend them in subsequent fiscal years.

The South Carolina Department of Commerce Division of Economic Opportunity has transferred various loans in prior years to JEDA for no consideration. They have also transferred various agreements to JEDA in prior years under which JEDA receives grant program income.

Savannah Lakes Regional Loan Fund

The Savannah Lakes Regional Loan Fund was established in 1990. It maintains a revolving loan fund to promote economic development in the State's Savannah Lakes Region. The Fund's Board of Directors consists of three members from each of two State agencies, the Department of Commerce and JEDA. The Savannah Lakes Regional Loan Fund is reported as a discretely presented component unit of the Department of Commerce – Division of Savannah Valley Development. JEDA had no financial transactions with the Savannah Lakes Regional Loan Fund during the year ended June 30, 2001.

NOTE 8. PENSION PLAN AND OTHER EMPLOYEE BENEFITS:

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

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 8. PENSION PLAN AND OTHER EMPLOYEE BENEFITS: (CONTINUED)

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

Under SCRS employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service. The benefit formula for full benefits effective July 1, 1989, for the System is 1.82% of an employee's average final compensation multiplied by the number of years of creditable service. An early retirement option with reduced benefits is available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years of credited service (this requirement does not apply if the disability is the result of a job-related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 10.07 percent which included a 2.52 percent surcharge to fund retiree health and dental insurance coverage. JEDA's actual contributions to the SCRS for the years ended June 30, 2001, 2000 and 1999, were approximately \$7,700, \$7,600 and \$7,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, JEDA paid employer group-life insurance contributions of approximately \$150 in the current fiscal year at the rate of .15 percent of compensation.

The amounts paid by JEDA for pension and group-life benefits are reported as employer contributions expenses.

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

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

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 8. PENSION PLAN AND OTHER EMPLOYEE BENEFITS: (CONTINUED)

At retirement, employees participating in the SCRS may receive additional service credit for up to 90 days for accumulated unused sick leave.

NOTE 9. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the Annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time employees and certain permanent part-time employees of JEDA are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits

These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget & Control Board for all participating State retirees, except the portion funded through the pension surcharge, and provided from other applicable revenue sources of JEDA for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 20,100 State retirees met these eligibility requirements as of June 30, 2000.

JEDA recorded employer contribution expenditures applicable to these benefits in the amount of approximately \$4,670 for active employees for the year ended June 30, 2001. As discussed in Note 8, JEDA paid approximately \$2,500 applicable to the 2.52% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to the Department retirees is not available. By State law, the Department has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from System's earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

NOTE 10. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to state employees and employees of political subdivisions. No employees of JEDA have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b) administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The state has no liability for losses under the plan. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 11. OTHER REAL ESTATE, RENTAL PROPERTY AND EQUIPMENT OWNED:

During the year ended June 30, 1995, JEDA received a deed in lieu of foreclosure for land and building which had been security on a loan. The appraised value as of September 29, 1994 was \$300,000. The land and building were initially recorded at the appraised value. JEDA continues to actively market the property for sale. JEDA recorded a \$100,000 decrease in the carrying value of the land as of June 30, 1999 based on its estimated fair value.

NOTE 12. RISK MANAGEMENT:

JEDA is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. JEDA pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers 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 except for the deductibles.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insurance plan except dependent and optional life premiums which are remitted to commercial carriers.

JEDA 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, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment; and
3. Torts.

The above property and equipment coverage is purchased to insure foreclosed property and assets which are collateral for loans.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 12. RISK MANAGEMENT: (CONTINUED)

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, boiler and machinery, automobile liability, and medical professional liability insurance. The IRF's rates are determined actuarially.

JEDA obtains up to \$100,000 per occurrence coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. JEDA self-insures above this amount because it feels the likelihood of loss is remote. No payments for uninsured losses were made during the fiscal year ended June 30, 2001.

JEDA has recorded insurance premium expenses in the fixed charges expense category. These expenses do not include estimated claim losses and estimable premium adjustments.

JEDA has not reported an estimated claims loss expenditure, and the related liability at June 30, 2001, based on the requirements of GASB Statement No. 10 Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which states that a liability for claims must be reported if information prior to issuance of the financial statements indicates that it is probable and estimable for accrual that an asset has been impaired or liability has been incurred on or before June 30, 2001 and the amount of the loss is reasonably estimable have not been satisfied.

In management's opinion, claim losses in excess of insurance coverage, if any, is unlikely and if it occurred, would not be significant. Therefore, no loss accrual has been made in these financial statements. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expense and liability should be accrued at year-end.

NOTE 13. COMMITMENTS:

JEDA has commitments outstanding as of June 30, 2001 to make grant awards totaling approximately \$2,042,000 from Community Development Block Grant funds. These commitments are recognized as grant expenses when paid. Disbursements of these funds is anticipated to be in the next fiscal year.

JEDA has similar agreements with CCIC for services in fiscal year 2002 as in fiscal year 2001.

NOTE 14. FUNDS HELD FOR OTHERS:

Funds held for others consist of amounts collected for and not expended primarily for Air South, Inc. and Marine Energy Systems Corporation. Also included are collections on the loan portfolio referred to in Note 4 which are disbursed to the trustee weekly.

JEDA was assigned the responsibility for collecting the note receivable and paying the federally guaranteed notes payable on loans to Air South, Inc. and Marine Energy Systems Corporation (MESC). MESC is still involved in bankruptcy proceedings. This responsibility continued in fiscal year 2001. JEDA has no financial responsibility for repayment of these notes payable.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS:

The Governmental Accounting Standards Board has issued Statement No 34 Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments. This new accounting and reporting standard will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 20, 2002.

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditure Amount</u>	<u>Expenditures to Subrecipients</u>
U.S. Department of Housing and Urban Development (Passed through the South Carolina Department of Commerce, Division of Economic Opportunity) Community Development Block Grants/ State's Program	14.228	\$ 4,397,273	\$ 4,203,065

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of South Carolina Jobs – Economic Development Authority and has been prepared on the cash basis method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of South Carolina Jobs – Economic Development Authority (JEDA) as of and for the year ended June 30, 2001, and have issued our report thereon dated October 1, 2001. We conducted our 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 JEDA'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 JEDA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Rogers & Laban, PA

Columbia, South Carolina
October 1, 2001





ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of South Carolina Jobs – Economic Development Authority (JEDA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2001. JEDA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of JEDA's management. Our responsibility is to express an opinion on JEDA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about JEDA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on JEDA's compliance with those requirements.

In our opinion, JEDA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

The management of JEDA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered JEDA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal

26

1529 HAMPTON STREET, SUITE 200 • COLUMBIA, SC 29201 • (803) 779-5870 • FAX (803) 765-0072 • E-MAIL: ROGLAB@USIT.NET



Investment Advisory Services Offered
Through 1st Global Advisors, Inc.



Securities Offered Through 1st Global
Capital Corp Member NASD, SIPC

Insurance Services Offered Through
1st Global Insurance Service, Inc.



8150 N. Central Expressway, Suite M-1000
Dallas, TX 75206 • 800-959-8440

program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Rogers & Lalan, PA

Columbia, South Carolina
October 1, 2001

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY
COLUMBIA, SOUTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

1. An unqualified opinion dated October 1, 2001 on the financial statements of JEDA for the year ended June 30, 2001 was issued.
2. No reportable conditions related to internal control over financial reporting were noted.
3. No instances of noncompliance which were material to the financial statements were noted.

FEDERAL AWARDS:

4. An unqualified opinion on compliance for the major program dated October 1, 2001 was issued.
5. There are no findings related to internal control over major programs required to be reported under Section .510(a) of OMB Circular A-133.
6. The major program of JEDA is the Community Development Block Grants/State's Program (CFDA 14.228).
7. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
8. JEDA was determined to be a low-risk auditee.

FINANCIAL STATEMENT FINDINGS

No material reportable conditions were noted during our audit.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No findings and questioned costs for federal awards were noted that are required to be reported under Section .510(a) of OMB Circular A-133.