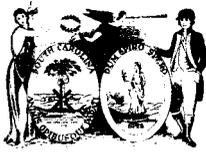


**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA
DEPARTMENT OF COMMERCE
COLUMBIA, SOUTH CAROLINA**

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

Year Ended June 30, 2002

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

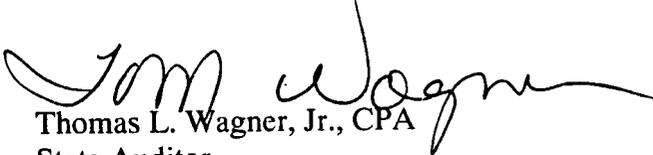
September 23, 2002

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

This report on the audit of the financial statements of the Division of Savannah Valley Development of the South Carolina Department of Commerce for the fiscal year ended June 30, 2002, 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, 2002**

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WALDA WILDMAN LLC
CERTIFIED PUBLIC ACCOUNTANT

Synergy Business Park • Congaree Building • 121 Executive Center Drive • Suite 206
Columbia, South Carolina • 29210
Telephone 803.216.9800 • Fax 803.216.9498

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

August 26, 2002

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, 2002, 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 did not audit the financial statements for the Savannah Lakes Regional Loan Fund, a component unit of the SVD, which represent 100 percent of the assets and revenues of the discretely presented component units, which are presented in a discrete column in the accompanying financial statements. Those financial statements were audited by other auditors whose report thereon dated August 31, 2002 has been furnished to me, and my opinion, insofar as it relates to the amounts included for the Savannah Lakes Regional Loan Fund, is based solely on the report of other auditors.

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 and the report of other auditors provide 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 State of South Carolina that is attributable to the transactions of the SVD. These financial statements referred to above include the financial activities of the Savannah Lakes Regional Loan Fund, a component unit of the SVD. These financial statements do not include other funds, enterprises or component units of the Department of Commerce or the State. These financial statements are not intended to present fairly the financial position of the State of South Carolina primary government or financial reporting entity or of the South Carolina Department of Commerce and the results of either's operations and cash flows of their proprietary fund 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, 2002, 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.

As discussed in Note 11 to the basic financial statements, the SVD adopted Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2001.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 26, 2002, 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 CAFR 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 GASB.

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, 2002**

	<u>Primary Government</u>	<u>Component Unit Savannah Lakes Regional Loan Fund</u>
	<u>Business-Type Activity</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 355,439	\$ 374,322
Short-term investments	0	140,000
Interest receivable on deposits	85	169
Total unrestricted current assets	<u>355,524</u>	<u>514,401</u>
Restricted current assets:		
Cash and cash equivalents		
Note payable debt service and sinking funds	3,194,299	0
Lake Russell project escrow deposits	24,045	0
Total restricted cash and cash equivalents	<u>3,218,344</u>	<u>0</u>
Interest receivable on deposits	29,749	0
Interest receivable on notes	91,119	0
Total restricted current assets	<u>3,339,212</u>	<u>0</u>
Restricted noncurrent assets:		
Notes receivable	15,939,800	0
Capital assets		
Work-in-process, net of allowance to reduce carrying value to estimated net realizable value	956,874	0
Land, net of \$63,318 valuation allowance	1	0
Total capital assets	<u>956,875</u>	<u>0</u>
Total assets	<u>20,591,411</u>	<u>514,401</u>
LIABILITIES		
Current liabilities:		
Accounts payable	24,000	0
Accounts payable - related party	0	267
Total current liabilities	<u>24,000</u>	<u>267</u>
Current liabilities payable from restricted assets:		
Lake Russell project escrow liability	24,045	0
Interest payable	563,017	0
Total current liabilities payable from restricted assets	<u>587,062</u>	<u>0</u>
Noncurrent liabilities payable from restricted assets-:		
Notes payable	15,939,800	0
Total noncurrent liabilities	<u>15,939,800</u>	<u>0</u>
Total liabilities	<u>16,550,862</u>	<u>267</u>
NET ASSETS		
Invested in capital assets	956,875	0
Restricted for debt service	2,752,150	0
Unrestricted	331,524	514,134
Total net assets	<u>\$ 4,040,549</u>	<u>\$ 514,401</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, 2002**

	<u>Primary Government</u>	<u>Component Unit Savannah Lakes Regional Loan Fund</u>
	<u>Business-Type Activity</u>	
Operating revenues:		
Loan loss recoveries	\$ 0	\$ 4,500
Total operating revenue	<u>0</u>	<u>4,500</u>
Operating expenses:		
Professional fees	27,641	1,800
Repairs and maintenance	47,202	0
Miscellaneous	3,919	0
Management fees	0	267
Bank charges	0	1,764
Total operating expenses	<u>78,762</u>	<u>3,831</u>
Operating income (loss)	(78,762)	669
Non-operating revenues (expenses):		
Interest income on notes receivable	1,227,591	0
Interest income from deposits and short-term investments	192,057	9,796
Interest expense	<u>(1,227,591)</u>	<u>0</u>
Total non-operating revenues (expenses)	<u>192,057</u>	<u>9,796</u>
Net income (loss)	113,295	10,465
Net assets (deficit), beginning of year, as restated	<u>3,927,254</u>	<u>503,669</u>
Net assets (deficit), end of year	<u>\$ 4,040,549</u>	<u>\$ 514,134</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, 2002**

Cash flows from operating activities:	
Payments to suppliers and customers	\$ 57,107
Net cash provided (used) by operating activities	<u>(57,107)</u>
Cash flows from non-capital financing activities:	
Principal payments on notes payable	(1,330,200)
Interest payments on notes payable	<u>(1,351,239)</u>
Net cash provided (used) by non-capital financing activities	<u>(2,681,439)</u>
Cash flows from investing activities:	
Collection of escrow payments from borrower	1,724,786
Interest received on deposits and short-term investments	<u>195,621</u>
Net cash provided (used) by investing activities	<u>1,920,407</u>
Net cash and cash equivalents increase (decrease) for year	(818,139)
Cash and cash equivalents, beginning of year	<u>4,391,922</u>
Cash and cash equivalents, end of year	<u>\$ 3,573,783</u>
Reconciliation of operating loss to net cash used by operating activities:	
Loss from operations	\$ (78,762)
Adjustments to reconcile net cash provided by operating activities:	
Change in assets and liabilities	
Increase (decrease) in accounts payable	24,000
Increase (decrease) in Lake Russell project escrow liability	<u>(2,345)</u>
Net cash provided (used) by operating activities	<u>\$ (57,107)</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, 2002**

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

The financial statements of the SVD are included in the Comprehensive Annual Financial Report of the State of South Carolina, which is the primary government.

However, the financial reporting entity, as defined by Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of a primary government, legally separate 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

As a result, an organization other than a primary government may serve as a nucleus for a reporting entity when it issues its own separate financial statements, and, as in the case of a primary government, such separate financial statements should include any applicable component units meeting inclusion criteria.

Among criteria used to determine whether an entity is financially accountable, and should therefore be included as a component unit, are whether a legally separate entity is fiscally dependent on the primary entity, and whether the financial statements would be misleading if the unit were excluded. Based on this criterion, these financial statements include the Division of Savannah Valley Development of the South Carolina Department of Commerce as a primary entity issuing separate financial statements and its component unit, the Savannah Lakes Regional Loan Fund.

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

Under terms of an agreement between JEDA and the SVD, the SVD contributed \$1,020,000 to capitalize the fund,

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2002**

while JEDA provides administrative services. Either JEDA or the SVD can terminate the agreement upon sixty days notice. If the agreement is terminated, the SVD is entitled to any SLRLF assets not committed to loans.

Accordingly, the Savannah Lakes Regional Loan Fund (SLRLF) has been included as a discretely presented component unit of the SVD. The SLRLF is presented as an enterprise fund type

Complete financial statements for the SLRLF may be obtained at the entity's administrative office, 1441 Main Street, Columbia, South Carolina.

Basis of Presentation

The financial statement presentation for the SVD has been changed to meet the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, which the SVD adopted as of July 1, 2001. This 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 that replaces the fund accounting perspective previously required.

Significant Accounting Policies

Basis of Accounting

For financial reporting purposes, the SVD is considered a government engaged only in business-type activities for 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.

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 State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds.

The State’s internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund’s equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The SVD records and reports its deposits in the general deposit account at cost. The SVD reports its deposits in the special deposit accounts at fair value. 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

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
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NOTES TO FINANCIAL STATEMENTS
June 30, 2002**

allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the SVD's percentage ownership in the pool.

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

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

Interest Income from Deposits and Short-term Investments

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

Capital Assets

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

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2002**

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, 2002, 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, and earnest money deposits for purchase of lots in the real estate owned by the SVD.

Classification of Revenues

The SVD has classified its revenues as either operating or nonoperating according to the following criteria:

- *Operating revenues:* Operating revenues include revenues generated by activities that have the characteristics of exchange transactions, such as payments for goods and services provided by the SVD
- *Nonoperating revenues:* Nonoperating revenues include revenues generated by activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

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 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.

Changes in Accounting and Restatement of Beginning Net Asset Balances

As a result of adopting GASB Statement No. 34, the SVD was also required to make certain changes in accounting principles. The changes are discussed in detail in note 11.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2002**

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, 2002. 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.

Component Unit Short-term Investment:

The SLRLF holds a certificate of deposit as a short-term investment. That deposit instrument is insured or collateralized with securities held by the entity or its agent in the entity's name and classified in deposit credit risk category 1.

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, 2002, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

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

The cash and certificate of deposit of the SVD and its component unit consist of deposits held by the State Treasurer, deposits with financial institutions and a certificate of deposit. The following is a schedule of cash and investments at June 30, 2002, categorized by risk:

	<u>Category</u>			<u>Bank Balance</u>	<u>Reported Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
DEPOSITS					
<u>Primary Entity:</u>					
Deposits held by the State Treasurer	\$ 3,573,783	\$ 0	\$ 0	\$ 3,575,534	\$ 3,573,783
<u>Component Unit:</u>					
Deposits held by commercial banks	84,706	290,079	0	374,785	374,785
<u>Component Unit:</u>					
Certificate of deposit with commercial bank	\$ 140,000	\$ 0	\$ 0	\$ 140,000	\$ 140,000

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2002**

3. NOTES PAYABLE AND RECEIVABLE

Primary Government

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, 2002 was \$742,398. As of June 30, 2002, all of this 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, 2002 was \$2,390,130, 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, 2002 was \$61,771. During fiscal 2002, \$776,892 principal was paid on the January 1991 note, thus retiring that note. Also during fiscal 2002, \$553,308 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, 2002:

<u>Inception</u>	<u>Amount</u>
January 1992	\$ 1,946,692
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

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2002**

January 1998	1,139,070
January 1999	2,423,517
January 2000	1,224,262
January 2001	<u>606,517</u>
Total	<u>\$ 15,939,800</u>

Component Unit

SLRLF loans receivable at June 30, 2002, consisted of the following:

\$150,000 loan to MediPak Corporation made in fiscal year 1994. As of June 30, 1997, the loan was in default. In September 1997, confession of judgment was obtained from the guarantors who have promised to pay SLRLF \$750 per month plus 11.25% of net income according to their personal income tax returns each year. No interest is provided by the confession of judgment. Due to the potential length of the repayment term and the questionable collectibility, in 1997, the allowance for loss for this loan was increased and the entire balance was offset by an allowance for loan losses. Repayments are recorded as loan loss recoveries in the statement of revenues, expenses and changes in net assets. During 2002, \$4,500 was recovered.

	<u>\$ 41,988</u>
	41,988
Less, allowance for loan losses	<u>(41,988)</u>
Balance at net realizable value	<u>\$ 0</u>

4. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2002, was as follows:

	June 30, 2001	Additions	Reductions	June 30, 2002	Due within One Year
Notes payable, Insurance Reserve Fund	<u>\$ 17,270,000</u>	<u>\$ 0</u>	<u>\$ 1,330,200</u>	<u>\$ 15,939,800</u>	<u>\$ 0</u>

5. WORK IN PROCESS AND ESCROW LIABILITY

Work-in-process at June 30, 2002 consisted of the following:

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

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
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June 30, 2002**

The land, development studies and professional fees are related to a resort and retirement community at Lake Russell in Abbeville County which the SVD has had under development since 1992. The property to be developed includes some 2,900 acres owned by the SVD, leased by the SVD (see note 7) and leased from the U.S. Secretary of The Army by the South Carolina Department of Parks, Recreation and Tourism. All the property is located at or near Calhoun Falls, South Carolina.

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

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

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

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

In August 1998, SVD and Freshwater negotiated a Termination of Development Agreement. In January 1999, the SVD executed a deed-in-lieu-of-foreclosure and Freshwater returned the unsold portion of the 87 acres it had purchased along with the earnest money deposits for pending lot sales. As part of the overall settlement between the SVD, Freshwater and Fluor Daniel, Fluor Daniel agreed to satisfy its mechanics lien and to satisfy liens of others. These liens totaled \$5,300,000. The SVD agreed to terminate the development contract with Freshwater, to forgive Freshwater's debt to it, to pay off the principal and accrued interest due to the commercial bank for Freshwater's matching loan, and to reimburse one of the principals of Freshwater for an interest payment he made personally. In addition, the SLRLF agreed to forgive the \$1,000,000 loan it made to Freshwater. The total paid by the SVD to reacquire the land was as follows:

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
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Principal and interest paid to commercial lender	\$ 902,830
Payment to principal of Freshwater	27,705
Closing costs	<u>6,026</u>
Total	<u>\$ 936,561</u>

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

Subsequent to the January 1999 agreement, SVD management contacted those individuals who had deposited earnest money to purchase lots in the development. These people were given the option to have their deposits returned and their contracts canceled or to leave their money on deposit pending selection of a successor developer. Of the \$89,813 of escrow money received from Freshwater, \$50,438 was returned to prospective buyers. Thirty-one buyers chose to leave their earnest money on deposit. Escrow deposits at June 30, 1999 totaled \$39,375. Also during fiscal 1999, the Town of Calhoun Falls was paid the \$411,354 remaining under terms of the infrastructure grant.

During fiscal 2000 and 2001, additional earnest money deposits totaling \$12,984 were returned to 17 prospective buyers and during fiscal 2002, \$2,344 was returned to another two buyers. At June 30, 2002, twelve prospective purchasers maintained earnest money deposits with the SVD totaling \$24,045, which is reported as restricted assets in the Lake Russell project escrow liability account.

During fiscal 2000, the SLRLF management determined that it was unlikely the \$1,000,000 loan it made to Freshwater would be recovered by requiring a successor developer to assume it. Accordingly, the SLRLF wrote the loan off against the allowance for loan losses which it established in the prior year.

Since fiscal 2000, SVD staff has attempted to find a developer to complete the project. As of June 30, 2000, the State Budget and Control Board had approved the transfer and lease of the land to a private developer contingent upon the SVD entering into a development agreement with a private developer and contingent upon the Office of General Services approval of the final transaction documents. From fiscal 2000 until June 2002, such a contract was pending with a new developer.

The contract was to have been between the SVD, a new developer, and Fluor Daniel. The proposed Land Acquisition, Option and Lease Purchase Agreement acknowledged that as part of the settlement between SCDOC and Freshwater discussed above, Fluor Daniel agreed to satisfy its mechanic's lien and to pay amounts necessary to satisfy liens of others and that, and in doing so, Fluor Daniel is owed or has incurred expenses in excess of \$5,300,000 in connection with the Lake Russell development. The proposed contract further provided that the new developer would acquire the site in phases and that the purchase price to be paid by the developer would be the nonrecourse assumption and payment of a portion of the \$5,300,000 to Fluor Daniel. Earnest and down payment monies the developer was to pay to purchase the first phase were to total \$530,000, all of which would have been paid to Fluor Daniel. Also, the developer would have executed a note payable to Fluor Daniel for \$4,240,000, which indebtedness would have been satisfied with proceeds from the sale of lots in the first phase of the development. SVD was to receive no money from the sale of the first phase property to the new developer. During the seven years subsequent to purchase of the first phase, the developer was to have the option to purchase land in the second phase of the development in ten-acre increments. After purchasing sixty percent of the second phase acreage, the developer was to execute a note payable to the SVD for \$1,800,000 plus \$1,500 per acre of the acreage then remaining. The note was to be repaid as the developer sold the related property to the public.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2002**

The proposed private developer withdrew from the project in June 2002, and as of June 30, 2002, management was seeking a developer for the project. It is uncertain that a developer will be found.

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows:

Capital Assets Not Being Depreciated:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Work in process	\$ 956,874	\$ 0	\$ 0	\$ 956,874
Land, net of \$63,318 valuation allowance	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>
	<u>\$ 956,875</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 956,875</u>

7. OPERATING LEASES

The SVD leases 1,675 acres of land in Abbeville County from the U.S. Secretary of the Army under terms of a Lease to States for Public Park, Recreational and Forest Management Purposes. This lease grants the SVD certain usage and development rights for a term of 99 years beginning July 5, 1994. 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 2002 was \$47,202.

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 following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Torts;
4. 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.

**DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
June 30, 2002**

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).

South Carolina Department of Commerce employees provide management and accounting services at no cost for the SVD.

As part of its mission as an economic development agency for the Savannah River basin, the SVD receives from and provides services and financial assistance to various local governments in the area. These transactions take the form of direct and indirect financial assistance and employee assistance such as technical advice. No value can be determined for the indirect assistance and advice. However, 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 total amount was payable at June 30, 2002.

10. CONTINGENCY

As discussed in Note 5, it is not certain that a developer will be found to complete the project at Lake Russell.

11. ACCOUNTING CHANGES

As a result of the adoption of GASB Statements No. 34, as discussed in Note 1, the SVD was required (1) to change from reporting changes in "retained earnings" on its income statement to reporting changes in "net assets" and (2) to eliminate "contributed capital" as a component of equity. As a result, the SVD has restated its beginning net assets as of July 1, 2001, as follows:

Balances previously reported as fund equity:	
Contributed capital	\$ 4,509,110
Retained earnings (deficit)	<u>(581,856)</u>
Net Assets July 1, 2001, As Restated	<u>\$ 3,927,254</u>

**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 CAFR
For the Year Ended June 30, 2002**

	Primary <u>Government</u>	<u>Component Unit</u> Savannah Lakes Regional <u>Loan Fund</u>
	Business-Type <u>Activity</u>	
Charges for services	\$ 1,227,591	\$ 4,500
Operating grants and contributions	0	-
Capital grants and contributions	0	-
Less: expenses	<u>(1,306,353)</u>	<u>(3,831)</u>
Net program revenue (expense)	<u>(78,762)</u>	<u>669</u>
General revenues:		
Earnings on investments	192,057	9,796
Other general revenues		
Interest income on notes receivable	0	0
Special/extraordinary items	0	0
Contributions to permanent & term endowments	0	0
Transfers:		
State appropriation	0	0
Other transfers in from state agencies/funds	0	0
Less: transfers out to state agencies/funds		
Payment of interest on notes payable to Insurance Reserve Fund	<u>0</u>	<u>0</u>
Total general revenue and transfers	<u>192,057</u>	<u>9,796</u>
Change in net assets	113,295	10,465
Net assets - beginning	<u>3,927,254</u>	<u>503,669</u>
Net assets - ending	<u>\$ 4,040,549</u>	<u>\$ 514,134</u>

WALDA WILDMAN LLC
CERTIFIED PUBLIC ACCOUNTANT

Synergy Business Park • Congaree Building • 121 Executive Center Drive • Suite 206
Columbia, South Carolina • 29210
Telephone 803.216.9800 • Fax 803.216.9498

**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 26, 2002

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, 2002, and have issued my report thereon dated August 26, 2002. 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

Synergy Business Park • Congaree Building • 121 Executive Center Drive • Suite 206
Columbia, South Carolina • 29210
Telephone 803.216.9800 • Fax 803.216.9498

AUDITOR'S COMMENTS

August 26, 2002

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

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

Walda Wildman, LLC

WALDA WILDMAN, LLC
Certified Public Accountant

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CERTIFIED PUBLIC ACCOUNTANT

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Columbia, South Carolina • 29210
Telephone 803.216.9800 • Fax 803.216.9498

STATUS OF PRIOR YEAR'S FINDINGS

August 26, 2002

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, 2001, no matters came to my attention on which I commented.

Walda Wildman, LLC

WALDA WILDMAN, LLC
Certified Public Accountant