

State of South Carolina



Office of the State Auditor

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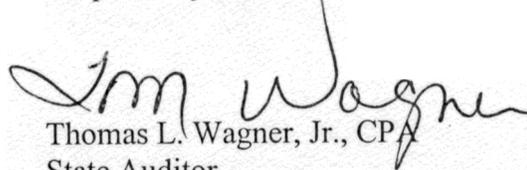
November 4, 1999

The Honorable James H. 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, 1999, 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

**SOUTH CAROLINA JOBS – ECONOMIC  
DEVELOPMENT AUTHORITY**

**COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**JUNE 30, 1999**

**SOUTH CAROLINA JOBS – ECONOMIC DEVELOPMENT AUTHORITY**

**TABLE OF CONTENTS  
JUNE 30, 1999**

	Page
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>FINANCIAL STATEMENTS:</b>	
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 - 22
<b>REQUIRED SUPPLEMENTARY INFORMATION – YEAR 2000 (Unaudited)</b>	24
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	25
<b>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></b>	26
<b>REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b>	27 and 28
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	29

## 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, 1999, 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 generally accepted auditing standards 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, 1999, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 24 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue, its effects, the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter and because insufficient audit evidence exists to support the disclosures. In addition, we do not provide assurance that JEDA is or will become year 2000 compliant, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which it does business are or will become year 2000 compliant.

As discussed in Note 16 to the financial statements, errors in the application of accounting principles regarding the proper classification of certain assets were discovered by management of JEDA during the year.

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 September 28, 1999, 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.

Columbia, South Carolina  
September 28, 1999

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

**BALANCE SHEET  
JUNE 30, 1999**

**ASSETS**

Cash and cash equivalents	\$ 10,331,951
Loans receivable, net of allowance for loan losses of \$168,439	2,244,680
Notes receivable	204,756
Other receivables	10,250
Subordinate interest in securitization trust, net of allowance for loss of \$277,622	710,172
Accrued interest receivable	36,937
Other real estate owned	200,000
<b>TOTAL ASSETS</b>	<b><u>\$ 13,738,746</u></b>

**LIABILITIES AND FUND EQUITY**

**LIABILITIES:**

Accounts payable and accrued expenses	\$ 54,199
Accrued payroll and related liabilities	1,637
Notes payable	204,756
Payable to related party	111,653
Accrued compensated absences and related benefits	20,950
Funds held for others	1,564,052
<b>TOTAL LIABILITIES</b>	<b><u>1,957,247</u></b>

**FUND EQUITY:**

Contributed capital	260,005
Retained earnings	11,521,494
<b>TOTAL FUND EQUITY</b>	<b><u>11,781,499</u></b>

<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 13,738,746</u></b>
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See accompanying Notes to Financial Statements.

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

**STATEMENT OF REVENUES AND EXPENSES  
FOR THE YEAR ENDED JUNE 30, 1999**

<b>Operating revenues:</b>	
Grant program income	\$ 504,107
Interest income on loans	152,631
Industrial revenue bond fees	111,500
Interest/investment income on deposits and investments	366,827
Bad debt recoveries	9,570
Other	<u>3,016</u>
<b>Total operating revenues</b>	<u>1,147,651</u>
<b>Operating expenses:</b>	
Grant expenses	4,963,742
Industrial revenue bonds administration fees	111,500
Personal services	101,472
Employer contributions	19,353
Contractual services	30,934
Supplies and materials	4,030
Fixed charges	30,685
Travel	15,666
Increase (decrease) in allowance for loan losses, net	(56,897)
Decrease in fair value of other real estate owned	<u>100,000</u>
<b>Total operating expenses</b>	<u>5,320,485</u>
<b>Operating income (loss)</b>	<u>(4,172,834)</u>
<b>Non-operating revenues (expenses):</b>	
Interest income on subordinate certificates	36,751
State appropriation revenues	125,000
Loan servicing fees	136,448
Loan servicing expense	(136,448)
Interest income - notes receivable	16,937
Interest expense - notes payable	(16,937)
Provision for gain on subordinate certificates	<u>57,246</u>
<b>Total non-operating revenues (expenses)</b>	<u>218,997</u>
<b>Net income (loss)</b>	<u><u>\$ (3,953,837)</u></u>

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, 1999**

Retained earnings - June 30, 1998	\$ 15,475,331
Net income (loss)	<u>(3,953,837)</u>
Retained earnings - June 30, 1999	<u>\$ 11,521,494</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, 1999**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Operating income (loss)	\$ (4,172,834)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:	
Increase (decrease) in allowance for loan losses	(56,897)
Decrease in fair value of other real estate owned	100,000
Interest/investment income on deposits, investments and notes receivable - reclassified to investing activities	(366,827)
(Increase) decrease in assets:	
Accrued interest receivable - loans	20,656
Accounts receivable	2,768
Other receivables	(10,250)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(34,913)
Accrued payroll and related liabilities	(4,218)
Payable to related party	76,110
Funds held for others	965,889
Accrued compensated absences and related benefits	3,923
Loans made	(110,043)
Loan principal collected	1,570,210
Loan servicing fees received	136,448
Loan servicing expense paid	(136,448)
	2,156,408
<b>Total adjustments</b>	<b>2,156,408</b>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(2,016,426)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
State appropriations received	125,000
Proceeds from notes payable	26,472
Repayment of notes payable	(25,798)
Interest paid - notes payable	(16,937)
	108,737
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>108,737</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Repayment of notes receivable	26,553
Notes receivable made	(26,472)
Interest received on subordinate certificates	36,750
Interest/investment received on deposits and investments	482,153
Interest received on notes receivable	16,937
Principal collections on subordinate certificates	214,005
	749,926
<b>NET CASH PROVIDED FROM INVESTING ACTIVITIES</b>	<b>749,926</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,157,763)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>11,489,714</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 10,331,951</b>

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, 1999**

**NONCASH INVESTING TRANSACTIONS:**

Provision for gain on subordinate certificates	\$ 57,246
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**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Interest received from operating activities - loans	\$ 173,287
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**See accompanying Notes to Financial Statements.**

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of South Carolina Jobs – Economic Development Authority (JEDA) were prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body 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.

JEDA was created by Section 41-43-30 of the Code of Laws of South Carolina, as a quasi-public instrument of the State created to maintain and expand job opportunities through financial assistance to small and middle market businesses.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

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

**Reporting Entity (Continued)**

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.

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, 1999**

**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 1999 to fiscal year 1999 appropriations in July 1999. 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

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

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

based 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 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 individual loans in the loan portfolios.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**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	\$10,331,951	Cash on Hand	\$ 200
		Deposits with Financial Institutions	218,321
		Deposits Held by State Treasurer	7,327,404
		Government Securities (Overnight Repurchase Agreements)	2,786,026
	<u>\$10,331,951</u>		<u>2,786,026</u>
			<u>\$10,331,951</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, 1999**

**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**

JEDA's other deposits at year-end were entirely insured or collateralized by securities held by JEDA's agent in JEDA's name.

**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.

Investments are categorized into these categories of credit risk:

- (1) Insured or registered, or for which the securities are held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent but not in the government's name.

A summary of investments at June 30, 1999 by risk category follows:

	Category			Carrying Amount	Fair Value
	1	2	3		
Repurchase agreements	<u>\$1,322,026</u>	<u>\$</u>	<u>\$1,464,000</u>	<u>\$2,786,026</u>	<u>\$2,786,026</u>

The highest balance of repurchase agreements in Category 1 during the year was \$1,338,815. The repurchase agreements in Category 3 were not insured or

registered due to a bank error and was the highest balance during the fiscal year. The deficiency was corrected prior to the issuance of this report.

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 at June 30, 1998. The Authority considered the stock to be worthless as of June 30, 1999 and has recognized a decrease of \$104,912 in the fair value of the investment. The decrease is reported in interest/investment income on deposits and investments.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 3. LOANS RECEIVABLE:**

Loans receivable at June 30, 1999 consisted of the following:

	CDBG Portfolio	CDBG (DED) Portfolio	EDA Portfolio	Total
Loans receivable	\$1,533,533	\$762,449	\$117,137	\$2,413,119
Less, allowance for loan losses	<u>(168,439)</u>	<u>                    </u>	<u>                    </u>	<u>(168,439)</u>
	<u>\$1,365,094</u>	<u>\$762,449</u>	<u>\$117,137</u>	<u>\$2,244,680</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. Loan terms range from 4 to 15 years with interest rates from 2% to 9.51%.

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, 1999.

The Palmetto Basic Building Fund (PBBF) portfolio loans were originated by JEDA and funded 50% by a grant to JEDA from the U.S. Department of Commerce, Economic Development Administration and 50% by CDBG federal funds. All PBBF loans are secured by real estate. All PBBF loans were paid in full or charged off in 1999.

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.

Loans charged off against the allowance during the year ended June 30, 1999 are as follows:

PBBF Portfolio	<u>\$ 195,911</u>
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The increase (decrease) in the allowance for loan losses on the Statement of Revenues and Expenses for the year ended June 30, 1999 is broken down as follows:

CDBG Portfolio	\$ 45,925
CDBG (DED) Portfolio	(175,000)
PBBF Portfolio	<u>72,178</u>
	<u>\$ (56,897)</u>

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**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, 1999, resulting in a valuation increase of \$57,246 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.

Gross receivable, beginning	\$1,201,799
Less, principal payments received	<u>(214,005)</u>
Gross receivable, ending	987,794
Allowance for loss on Subordinate Certificates	<u>(277,622)</u>

Estimated value, ending

\$ 710,172

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, 1999.

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, 1999 totaled \$30,510. (See Note 7.)

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 5. NOTES PAYABLE/NOTES RECEIVABLE:**

JEDA borrowed \$246,472 under five notes payable during fiscal years 1999 and 1998 from a local financial institution. 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 rate is 9% per annum. These loans were drawn down under a \$2,000,000 line of credit which the financial institution has committed through calendar year 1999 and which provides that JEDA shall 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, 1999 and their maturity dates and monthly payment requirements are as follows:

	<u>Balances</u>	<u>Maturity Dates</u>	<u>Monthly Payment</u>
	\$ 56,081	04/24/2002	\$ 828
	60,290	10/01/2002	1,274
	21,787	10/24/2002	634
	40,126	04/15/2003	1,038
	<u>26,472</u>	06/15/2004	551
Total	<u>\$204,756</u>		

JEDA received interest income of \$16,937 and incurred interest expense of \$16,937 on the notes receivable and notes payable which is included in non-operating revenue (expense).

Future maturities of the notes payable as of June 30, 1999 are as follows:

Year Ended June 30,	Principal	Interest	Totals
2000	\$ 33,206	\$ 16,711	\$ 49,917
2001	37,143	13,984	51,127
2002	80,691	9,887	90,578
2003	48,108	2,147	50,255
2004	5,608	300	5,908
Totals	<u>\$204,756</u>	<u>\$ 43,029</u>	<u>\$247,785</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, 1999, JEDA paid CCIC \$111,500, 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).

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 6. INDUSTRIAL REVENUE BONDS: (CONTINUED)**

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 issued subsequent to July 1, 1995. The current principal balance on debt issued between July 1, 1995 and June 30, 1996 is not available; however the original amount of that debt was \$757,464,501. The outstanding principal balance of conduit debt issued after June 30, 1996 was \$534,423,389 as of June 30, 1999.

**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 are being provided by CCIC effective 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.

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, 1999, JEDA paid CCIC \$111,500 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, 1999, JEDA paid CCIC \$136,448 in loan servicing expense (nonoperating expense).

JEDA pays CCIC for administrative expenses incurred under the Community Development Block Grant Program. During fiscal year 1999, \$189,457 for CCIC is included in grant expenses.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 7. RELATED PARTY TRANSACTIONS: (CONTINUED)**

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:

<u>JEDA Expenses to CCIC</u>	
Contractual Services	
Telephone	\$ 5,313
Contractual Services	455
Maintenance and Repairs	1,437
Marketing and Promotion	<u>1,935</u>
	<u>9,140</u>
Supplies and Materials	
Printing	735
Postage	638
Office Supplies	1,034
Small Equipment	<u>806</u>
	<u>3,263</u>
Fixed Charges	
Rent	10,034
Parking	821
Dues and Subscriptions	737
Equipment Lease	105
Miscellaneous	<u>860</u>
	<u>12,557</u>
Travel	
Vehicle Lease	<u>6,440</u>
Loan Servicing Expense (nonoperating)	<u>136,448</u>
Total	<u>\$167,848</u>
<u>Accounts Payable-Related Party (CCIC)</u>	
For Loan Administration Fees, Management Fees, Revenues and Expense and Cost Recovery Fees	<u>\$111,653</u>

**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.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 7. RELATED PARTY TRANSACTIONS: (CONTINUED)**

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 1999 expenditures applicable to these related party transactions is not readily available.

For fiscal year 1999, 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 1999. 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 1999, JEDA expended \$109,869 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 the current and prior years under which JEDA receives program grant 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. There was no financial activity with the Savannah Lakes Regional Loan Fund during the year ended June 30, 1999.

**NOTE 8. PENSION PLANS 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.

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.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

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

Under SCRS employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service. The benefit formula for full benefits effective July 1, 1999, 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. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years of credited service. 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.

Since July 1, 1998, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. JEDA's actual contributions to the SCRS for the years ended June 30, 1999, 1998 and 1997, were approximately \$7,000, \$6,300 and \$8,300, 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 \$140 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 Department'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 Department's liability under the pension plan(s) 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.

At retirement, employees participating in the SCRS or PORS 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.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 9. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS: (CONTINUED)**

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 19,000 State retirees met these eligibility requirements as of June 30, 1998.

JEDA recorded employer contribution expenditures applicable to these benefits in the amount of approximately \$3,600 for active employees for the year ended June 30, 1999. As discussed in Note 8, JEDA paid approximately \$1,900 applicable to the 2.03% 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.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans had to comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1999.

**NOTE 11. OTHER REAL ESTATE 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 put on the books at the appraised value. JEDA is actively marketing the building for sale. JEDA has recorded a \$100,000 decrease in the carrying value of the land as of June 30, 1999 based on its estimated fair value.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 12. SALE OF LOAN PORTFOLIO:**

On March 21, 1996, with a valuation date of January 26, 1996, JEDA sold a substantial portion of its loan portfolio.

JEDA could receive additional sale proceeds if the collections on the loans exceed certain specified amounts by May 21, 2001.

JEDA agreed to service the loans sold for 3% of cash collected. JEDA assigned this servicing contract to CCIC. During the fiscal year ended June 30, 1999, JEDA received \$136,448 in loan servicing fees from the purchaser of the loan portfolio and paid \$136,448 in Loan Servicing Expense (nonoperating) to CCIC.

**NOTE 13. 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.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 13. RISK MANAGEMENT: (CONTINUED)**

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

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, 1999.

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, 1999, 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, 1999 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 14. AIR SOUTH, INC. AND MARINE ENERGY SYSTEMS CORPORATION:**

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). This responsibility continued in fiscal year 1999. JEDA has no financial responsibility for repayment of these notes payable. JEDA did expend \$246,275 in a prior year in connection with collecting the loan due from Air

South, Inc. These costs were recorded as Air South, Inc. non-operating expenses. The \$246,275 included \$82,034 for estimated additional legal fees accrued of which \$46,420 was not paid as of June 30, 1999 and is included in accounts payable and accrued expenses. JEDA may receive reimbursement for these expenses in the future.

**NOTE 15. COMMITMENTS:**

JEDA has commitments outstanding as of June 30, 1999 to make grant awards totaling approximately \$2,780,000 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 2000 as in fiscal year 1999.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 16. PRIOR PERIOD ADJUSTMENT**

JEDA received common stock in a company as consideration for the balance owed on a loan receivable with a balance of \$209,825 less an allowance for loan losses of \$104,913 during the year ended June 30, 1998. JEDA reported this asset as a loan receivable instead of as an investment at June 30, 1998.

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

**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED  
JUNE 30, 1999**

**YEAR 2000**

The year 2000 ("Y2K") issue arises because most computer software programs allocate two digits to the Year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may effect electronic equipment containing computer chips that have date recognition features – such as environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under JEDA's direct control but also the systems of other entities with which JEDA transacts business. As discussed in Note 7, management services are being provided by CCIC and JEDA is dependent upon CCIC's year 2000 efforts for its financial reporting and loan servicing.

Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that JEDA is or will be Y2K ready, JEDA's remediation efforts will be successful in whole or in part, or that parties with whom JEDA does business or on which it is dependent will be Y2K ready.

JEDA is making contingency plans in the event that CCIC's remediation efforts are not successful and also for the possible interruptions to JEDA's business.

SOUTH CAROLINA JOBS - ECONOMIC DEVELOPMENT AUTHORITY  
COLUMBIA, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 1999

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
<b>U.S. Department of Housing and Urban Development</b> (Passed through the South Carolina Department of Commerce, Division of Economic Opportunity) Community Development Block Grants/ State's Program	14.228	<u>\$5,030,316</u>

The Schedule of Expenditures of Federal Awards has been prepared on the cash basis method of accounting.

**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, 1999, and have issued our report thereon dated September 28, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States except that we did not audit or express an opinion on the required supplementary information on page 24 as described in our independent auditor's report presented on page 1.

### **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 for the information of the Board of Directors, management and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina  
September 28, 1999

**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, 1999. 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 generally accepted auditing standards; 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, 1999.

**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 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 for the information of the Board of Directors, management and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina  
September 28, 1999

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1999**

**SUMMARY OF AUDITOR'S RESULTS**

1. An unqualified opinion dated September 28, 1999 on the financial statements of JEDA for the year ended June 30, 1999 was issued. We did not audit and did not express an opinion on the required supplementary information presented on page 24.
2. No reportable conditions were noted.
3. No instances of noncompliance which were material to the financial statements were noted.
4. An unqualified opinion on compliance for the major program dated September 28, 1999 was issued.
5. There are no findings 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.

**REPORTABLE MATERIAL WEAKNESS**

No material reportable weakness were noted.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

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