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, 2006

WALDA WILDMAN LLC
CERTIFIED PUBLIC ACCOUNTANT
September 8, 2006

The Honorable Mark Sanford, Governor
and
Mr. Joe E. Taylor, Jr., Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce - Division of Savannah Valley Development for the fiscal year ended June 30, 2006, 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,

[Signature]

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGj r/trb
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OF THE SOUTH CAROLINA
DEPARTMENT OF COMMERCE
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Year Ended June 30, 2006
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OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
FINANCIAL STATEMENTS
Year Ended June 30, 2006

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

August 28, 2006

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the 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, 2006, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the SVD's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in note 1 to the financial statements, the financial statements of the SVD are intended to present the financial position, results of operations, and cash flows of only that portion of the funds of the South Carolina Department of Commerce and the State of South Carolina that is attributable to the transactions of the SVD. They do not purport to, and do not, present fairly the financial position of South Carolina Department of Commerce and the State of South Carolina as of June 30, 2006, and the changes in their financial positions and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the SVD as of June 30, 2006, and the results of its operations and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated August 28, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.
My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplementary Schedule of Information on Business-Type Activities Required for the Government-Wide Statement of Activities in the State Comprehensive Annual Financial Report is presented for purposes of additional analysis as required by the Office of the South Carolina Controller General and is not a required part of the basic financial statements of the Savannah Valley Development of the South Carolina Department of Commerce. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The SVD has not presented Management’s Discussion and Analysis, which is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

[Signature]

WALDA WILDMAN, LLC
Certified Public Accountant
### ASSETS

**Current assets:**
- Cash and cash equivalents: $241,433
- Total unrestricted current assets: 241,433

**Restricted current assets:**
- Cash and cash equivalents
  - Note payable debt service and sinking funds: 2,198,625
- Total restricted cash and cash equivalents: 2,198,625
- Interest receivable on restricted deposits: 17,518
- Interest receivable on notes receivable: 1,439,631
- Total restricted current assets: 3,655,774

**Restricted non-current assets:**
- Notes receivable: 13,565,057

**Capital assets:**
- Work-in-process, net of $752,844 valuation allowance: 497,386
- Land, net of $63,318 valuation allowance: 1
- Total capital assets: 497,387

**Total assets:** 17,959,651

### LIABILITIES

**Current liabilities payable from restricted assets:**
- Interest payable: 452,169
- Total current liabilities payable from restricted assets: 452,169

**Non-current liabilities payable from restricted assets:**
- Notes payable: 13,565,057
- Total non-current liabilities: 13,565,057

**Total liabilities:** 14,017,226

### NET ASSETS

- Invested in capital assets: 497,387
- Restricted for debt service: 3,203,605
- Unrestricted: 241,433
- Total net assets: $3,942,425

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, 2006

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses:</td>
<td></td>
</tr>
<tr>
<td>Professional fees</td>
<td>10,922</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>71,751</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>82,673</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>(82,673)</td>
</tr>
<tr>
<td>Non-operating revenues (expenses):</td>
<td></td>
</tr>
<tr>
<td>Interest income on notes receivable</td>
<td>1,116,220</td>
</tr>
<tr>
<td>Interest income from deposits and short-term investments</td>
<td>87,638</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(1,116,220)</td>
</tr>
<tr>
<td>Total non-operating revenues (expenses)</td>
<td>87,638</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>4,965</td>
</tr>
<tr>
<td>Net assets, beginning of year</td>
<td>3,937,460</td>
</tr>
<tr>
<td>Net assets, end of year</td>
<td>$ 3,942,425</td>
</tr>
</tbody>
</table>

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, 2006

<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments to suppliers and customers</td>
<td>$(84,274)</td>
</tr>
<tr>
<td>Net cash provided (used) by operating activities</td>
<td>$(84,274)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from non-capital financing activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal payments on notes payable</td>
<td>$(833,484)</td>
</tr>
<tr>
<td>Interest payments on notes payable</td>
<td>$(1,144,002)</td>
</tr>
<tr>
<td>Net cash provided (used) by non-capital financing activities</td>
<td>$(1,977,486)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection of escrow payments from borrower</td>
<td>1,553,702</td>
</tr>
<tr>
<td>Interest received on deposits and short-term investments</td>
<td>316,113</td>
</tr>
<tr>
<td>Net cash provided (used) by investing activities</td>
<td>1,869,815</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net cash and cash equivalents increase (decrease) for year</th>
<th>$(191,945)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>2,632,003</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$ 2,440,058</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Loss from operations</th>
<th>(82,673)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustments to reconcile net cash provided (used) by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Change in assets and liabilities</td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable</td>
<td>$(1,601)</td>
</tr>
<tr>
<td>Net cash provided (used) by operating activities</td>
<td>$(84,274)</td>
</tr>
</tbody>
</table>

**Supplemental disclosure - non-cash transaction:**

<table>
<thead>
<tr>
<th>Increase in notes payable and receivable by State Treasurer's Office</th>
<th>$ 98,520</th>
</tr>
</thead>
</table>

The accompanying notes are an integral part of these statements.
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations
The Division of Savannah Valley Development of the South Carolina Department of Commerce (the SVD), known prior to July 1, 1993 as the Savannah Valley Authority, is a budgetary unit of the State of South Carolina. The SVD was originally established by Section 13-9-10 of the Code of Laws of South Carolina, as amended by Act 456, 1992, to develop and promote the Savannah River basin area of the State. Code Section 13-1-620, item q, which became effective July 1, 1993, requires the SVD to assess charges and assessments for the use of its facilities and services sufficient to provide for payment of all its expenses.

Through the fiscal year ended June 30, 1993, the SVD was governed by a board of directors whose members were appointed by the Governor, with the advice and consent of the Senate. Effective July 1, 1993, as part of the restructuring of South Carolina government, the board was abolished and the Authority became the Division of Savannah Valley Development of the South Carolina Department of Commerce (DOC). The Restructuring Act, as codified in Code Section 13-1-620, provides that the SVD succeeds to all powers and duties of the Authority.

The SVD is subject to State laws for State agencies unless specifically exempted. Through the fiscal year ended June 30, 1994, the SVD received an annual appropriation from the State, but has received no annual state appropriation since that time.

Reporting Entity
A financial reporting entity, as defined by GASB Statement No. 14, The Financial Reporting Entity, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. The financial statements of the SVD constitute neither a primary government nor a component unit of a primary government because they present the financial position, results of operations, and cash flows of only that portion of the funds of the South Carolina Department of Commerce and the State of South Carolina that is attributable to the transactions of the Division of Savannah Valley Development of the South Carolina Department of Commerce. The SVD is part of the primary government of the State of South Carolina and its financial statements are included in the Comprehensive Annual Financial Report of the State of South Carolina, which is the primary government.

Basis of Presentation
In compliance with the requirements of GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the SVD’s financial statement presentation provides a comprehensive, entity-wide perspective of the SVD’s net assets, revenues, expenses and changes in net assets and cash flows.

Significant Accounting Policies
Basis of Accounting
For financial reporting purposes, the SVD is considered a division of a department of a government engaged only in a single business-type activity including debt service and capital activity. Accordingly, these financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. That is, revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized when an obligation has been incurred. In addition, all assets and liabilities associated with operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are classified as 1) invested in capital assets, 2) restricted, and 3) unrestricted.
The SVD distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing services and/or goods in connection with its principal on-going activity, which is the sale and rental of property used to promote and develop the Savannah River basin. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In accordance with Government Accounting Standards Board statement No. 20, the SVD has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989.

Cash and Cash Equivalents
The amounts shown in the financial statements as "cash and cash equivalents" represent cash on hand with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's cash management pool, and cash on deposit with commercial banks.

Most State agencies, including the SVD, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The cash management pool, administered by the State Treasurer, includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account, however, all earnings on that account are credited to the General Fund of the State. The SVD records and reports its deposits in the general deposit account at cost. The SVD reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the SVD's special accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the SVD's accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the SVD's percentage ownership in the pool.

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

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

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

Capital Assets
Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation, using guidelines established by the State of South Carolina. According to these guidelines, all land is capitalized, regardless of cost. Buildings and qualifying improvements thereto and improvements that rest in or on the land itself are recorded as depreciable capital assets if their cost exceeds $100,000. Movable personal property is
recorded as a capital asset if its unit value 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 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, 2006, 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.

**Classification of Revenues and Expense**

The SVD classifies its revenues and expenses as either operating or non-operating. Operating revenues include revenues generated by activities that have the characteristics of exchange transactions and generally result from transactions arising in connection with its principal on-going activity, the development of the Savannah River Basin. Operating revenues include charges and assessments for the use of its facilities and services. Operating expenses result from providing the facilities and services exchanged for the respective revenues.

All revenues and expenses not meeting the definition of operating revenues and expenses are reported as non-operating revenues and expenses. Such transactions generally arise from activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 34, such as state appropriations.
and investment income.

**Net Assets**
The SVD’s net assets are classified as follows:

- **Invested in capital assets:** This represents the SVD’s total investment in capital assets, net of any outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets.

- **Restricted net assets:** Restricted expendable net assets include resources in which the SVD is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

- **Unrestricted net assets:** Unrestricted net assets represent resources derived from operating revenues and may be used to meet current expenses for any purpose.

The SVD’s policy for applying expenses that can use both restricted and unrestricted resources is to apply the expense to restricted resources then to unrestricted resources.

**Income Taxes**
As a division of an agency of the State of South Carolina, the SVD is exempt from income taxes.

**Use of Estimates**
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. **DEPOSITS**

At June 30, 2006, all deposits of the SVD were held by the South Carolina State Treasurer. Deposits reported in the financial statements total $2,440,058. Deposits held by the State Treasurer were the same. Readers should refer to the Comprehensive Annual Financial Report of the State of South Carolina for information pertaining to reported amounts, fair values, and credit risk of the State Treasurer’s deposits and investments.

3. **NOTES PAYABLE AND RECEIVABLE**

In order to facilitate development of Savannah Lakes Village, a residential community in McCormick County, the SVD agreed to borrow up to $20 million from the State’s Insurance Reserve Fund and to lend these funds to McCormick County to pay for the community’s infrastructure. From 1990 through 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 Savannah Lakes Village lots having infrastructure. The SVD in turn loaned the money to McCormick County under terms and conditions identical to those under which it borrowed from the Insurance Reserve Fund. Each annual borrowing resulted in a separate note under terms of the Master Note Agreement. In fiscal 2005, the State Treasurer’s Office administratively consolidated the notes into a single note with no changes to the Master Note Agreement.

The Master Note Agreement and other related documents created a Special Tax (SCRUT Tax) which McCormick County is required to impose on all Savannah Lakes lots/units. The Special Tax was set at $30 per month per lot/unit for debt service plus $1 per month for administration by the developer who contracted with the County to be the servicing agent for the collection. As of January 1, 2005, the developer ceased serving as the servicing agent and was not replaced by the County. As of fiscal 2006, the County included the $372 annual
amount of the SCRUT Tax on real property tax bills sent to applicable owners of lot/units. In January 2006, the State Treasurer received a single payment for the year from the County. The County has asked the State Treasurer and the Budget and Control Board to agree to an amendment to the Master Note Agreement which would allow annual collection and remittance of the tax.

Once received by the State Treasurer, funds are deposited into SVD accounts required by the Master Note Agreement as follows:

**Special Tax Fund:** Money remitted 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, 2006 was $34,434. As of June 30, 2006, this entire amount has been recognized as notes receivable interest income by the SVD.

**Interest Fund:** Money is transferred from the Special Tax Fund annually in January 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, 2006 was $2,034,759, which is the fifteen percent maximum required reserve. In accordance with Proviso 73.17, $66,083 which was transferred to the State's general fund in fiscal 2003 was returned to this fund by the State.

**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. The balance of this account at June 30, 2006 was $129,433. During fiscal 2006, $833,484 was applied to the principal balance of the note. In accordance with Proviso 73.17, the State Treasurer increased this account by $168,273 during fiscal 2006.

Unless redeemed earlier, principal is due 30 years from the date it was borrowed. Under terms of the Master Note Agreement, interest at 8 percent is due annually in January. In accordance with the Act to Amend Joint Resolution 210 of 1987, dated May 25, 2006, of the South Carolina General Assembly, interest will be adjusted by the State Treasurer as of September 19, 2006 and again on January 31, 2007. Thereafter, the State Treasurer will adjust the interest rate on each January 31 for the ensuing bond year until the debt is retired. Based on an 8 percent interest rate, minimum debt service to maturity is as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$</td>
<td>$1,085,205</td>
<td>$1,085,205</td>
</tr>
<tr>
<td>2008</td>
<td>$1,085,205</td>
<td>$1,085,205</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>$1,085,205</td>
<td>$1,085,205</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>$1,085,205</td>
<td>$1,085,205</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>$1,085,205</td>
<td>$1,085,205</td>
<td></td>
</tr>
<tr>
<td>2012-2016</td>
<td>$5,426,025</td>
<td>$5,426,025</td>
<td></td>
</tr>
<tr>
<td>2017-2021</td>
<td>$5,426,025</td>
<td>$5,426,025</td>
<td></td>
</tr>
<tr>
<td>2022-2026</td>
<td>$8,171,691</td>
<td>$4,158,351</td>
<td>$12,330,042</td>
</tr>
<tr>
<td>2027-2031</td>
<td>$5,393,366</td>
<td>$966,797</td>
<td>$6,360,163</td>
</tr>
<tr>
<td></td>
<td>$13,565,057</td>
<td>$21,403,222</td>
<td>$34,968,279</td>
</tr>
</tbody>
</table>
4. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006, was as follows:

<table>
<thead>
<tr>
<th>Note</th>
<th>Amount</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending Balance</th>
<th>Due Within</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$14,300,021</td>
<td>$98,520</td>
<td>$833,484</td>
<td>$13,565,057</td>
<td>$</td>
</tr>
<tr>
<td>January 2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$14,300,021</td>
<td>$98,520</td>
<td>$833,484</td>
<td>$13,565,057</td>
<td>$</td>
</tr>
</tbody>
</table>

5. WORK IN PROCESS

In 1992, the SVD began work to develop a golf resort and retirement community at Lake Russell near Calhoun Falls, South Carolina. The property includes some 2,750 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 (SCPRT).

In February 1997, the SVD signed an agreement with a private developer to complete the project. The developer hired Fluor Daniel, Inc., as construction manager and began constructing infrastructure and related amenities. By the end of 1997, fifteen lots had been sold and others were under contract. In December 1997, Fluor Daniel suspended work because it was not being paid by the developer. In June 1998, the SVD determined that the developer was in default, and Fluor Daniel and another project subcontractor filed mechanics liens exceeding $5 million.

In the fall of 1998, the SVD and the developer agreed to terminate the development agreement. Among various provisions of the termination agreement, Fluor Daniel agreed to satisfy the mechanics liens and forego collection of what it was owed by the developer. Also, the developer turned over to the SVD the escrow deposits made by prospective lot purchasers in connection with their pending purchases.

From fiscal 2000 through the end of fiscal 2002, a contract to complete the project was pending with a second developer. The proposed agreement acknowledged that Fluor Daniel was owed in excess of $5.3 million in connection with its work on the project and specified that Fluor would be repaid prior to the SVD receiving any cash from the replacement developer. The agreement was never closed, however, and the proposed private developer withdrew from the project in June 2002.

In April 2003, a third developer, US Land Investments, LLC, (US Land) signed a memorandum of understanding with the SVD, the SCDOC, and Fluor Enterprises, Inc. (formerly Fluor Daniel). The memorandum set forth general terms for completion of the project and provided a due diligence period for the developer, during which it could assess the project. In July 2004, anticipating a final agreement with US Land, the SVD refunded any remaining escrow deposits to prospective purchasers.

In October 2004, the SVD and US Land signed a final development agreement, and pursuant to its terms, the SVD sold 411.82 acres of land it owned fee simple to US Land. Also in accordance with the agreement, the SVD entered into sub-leases with US Land for portions of land it in turn sub-leases from the South Carolina Department of Parks, Recreation and Tourism. (See note 7). In exchange for the land and the sub-leases, US Land executed a note and mortgage payable to Fluor in the amount of $5.4 million which fully satisfies any obligations to Fluor. US Land simultaneously re-purchased eight of the fifteen lots sold in 1997 by the original developer.
Moreover, pursuant to the development agreement, the SVD granted US Land an option to purchase the additional 445.79 acres of its fee simple land at $1,500 per acre and to sub-lease additional land sub-leased by the SVD from SCPRT. The agreement also requires the SVD to negotiate with the Corps of Engineers for additional land which US Land may purchase at the $1,500 per acre price. The option expires in October 2014.

The October 2004 development agreement also calls for the SVD to make a $350,000 infrastructure grant to Abbeville County and the Town of Calhoun Falls to provide road, water and sewer improvements for the property. The agreement also obligates the SVD to provide an employee one day per month for two years to act as a liaison with the U. S. Army Corps of Engineers and any other governmental or regulatory body having jurisdiction over the project.

US Land is obligated to complete a master plan which is expected to include a golf course, short-term rental housing, residential lots, and golf club house with amenities and retail facilities. The project will be completed in phases contingent on the SVD's approval of the master development plan. The development agreement requires US Land to complete the project in ten years.

As of June 30, 2006, the carrying value of the work in process was $497,386, net of a $752,844 valuation allowance.

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

<table>
<thead>
<tr>
<th>Capital Assets Not Being Depreciated</th>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work in process, net of valuation allowance</td>
<td>$497,386</td>
<td>$-</td>
<td>$-</td>
<td>$497,386</td>
</tr>
<tr>
<td>Land, net of valuation allowance</td>
<td>497,387</td>
<td>$-</td>
<td>$-</td>
<td>497,387</td>
</tr>
</tbody>
</table>

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. As part of the development agreement discussed in note 5, the lease was assigned to US Land Investments in October 2004. The SVD pays no rent under terms of this lease; however, the lease requires the SVD to maintain boat ramps located on the property until US Land Investments can find an appropriate party to operate the marina, of which the boat ramps are a part. Cost of maintaining these ramps during fiscal 2006 was $71,751.

8. RISK MANAGEMENT

The SVD is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, and errors and omissions. The SVD is covered for such risks under policies purchased by the South Carolina Department of Commerce which pays insurance premiums to certain other State agencies to cover such risks which may occur in normal operations. (See note 9.) These agencies promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settled claims did not exceed coverage for the past three years.
The Department of Commerce and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the theft of, damage to, or destruction of assets, real property, contents, and other equipment, torts, and natural disasters. The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property and automobile liability. The IRF purchases insurance for aircraft coverage. The IRF's rates are determined actuarially.

9. RELATED PARTY TRANSACTIONS

The SVD has significant transactions with the State of South Carolina. Services received at no cost from State agencies include check preparation and banking and investment functions from the State Treasurer and insurance coverage from the South Carolina Department of Commerce (see note 1). Also during 2006, South Carolina Department of Commerce employees provided management and accounting services at no cost to the SVD. As discussed in note 7, the SVD leases certain property from the South Carolina Department of Parks, Recreation, and Tourism.

In addition, during the year, the SVD had transactions with the Town of Calhoun Falls, a political subdivision of South Carolina, which was paid $38,000 for maintenance of boat ramps discussed in note 7.
DIVISION OF SAVANNAH VALLEY DEVELOPMENT
OF THE SOUTH CAROLINA DEPARTMENT OF COMMERCE
SUPPLEMENTARY SCHEDULE OF INFORMATION ON BUSINESS-TYPE ACTIVITIES REQUIRED
FOR THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES IN THE STATE COMPREHENSIVE
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2006

<table>
<thead>
<tr>
<th>Charges for services</th>
<th>$1,116,220</th>
<th>$6,582,518</th>
<th>($5,466,298)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating grants and contributions</td>
<td>87,638</td>
<td>120,760</td>
<td>($33,122)</td>
</tr>
<tr>
<td>Capital grants and contributions</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Less: expenses</strong></td>
<td>(1,198,893)</td>
<td>(7,136,256)</td>
<td>5,937,363</td>
</tr>
<tr>
<td><strong>Net program revenue (expense)</strong></td>
<td>4,965</td>
<td>(432,978)</td>
<td>437,943</td>
</tr>
</tbody>
</table>

General revenues:
- Earnings on investments
- Other general revenues
- Interest income on notes receivable
- Special/extraordinary items
- Contributions to permanent and term endowments

Transfers:
- State appropriation
- Other transfers in from state agencies/funds
- Less: transfers out to state agencies/funds

Total general revenue and transfers

<table>
<thead>
<tr>
<th>Change in net assets</th>
<th>4,965</th>
<th>(432,978)</th>
<th>437,943</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets – beginning</td>
<td>3,937,460</td>
<td>4,370,438</td>
<td>(432,978)</td>
</tr>
<tr>
<td><strong>Net assets – ending</strong></td>
<td>$3,942,425</td>
<td>$3,937,460</td>
<td>$4,965</td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

August 28, 2006

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the 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, 2006 and have issued my report thereon dated August 28, 2006. 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.

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. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the SVD's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Auditor's Comments, Comment 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I consider the reportable condition described above to be a material weakness.

Compliance and Other Matters
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 grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

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

[Signature]

WALDA WILDMAN, LLC
Certified Public Accountant
AUDITOR'S COMMENTS

August 28, 2006

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
State of South Carolina
Columbia, South Carolina

Comment 2006-1 - Inadequate Communication

Sound internal control requires adequate communication to assure that financial reports are complete. I noted during my audit, as I have noted from time to time in previous years, that designated staff are not informed about the nature and purpose of certain financial transactions recorded in the SVD’s general ledger. In essence, while Department of Commerce is charged with reporting the financial transactions of the SVD, actual management of those transactions resides at the State Treasurer’s Office. In addition, the Budget and Control Board and the Insurance Reserve Fund, as well as McCormick County and the residents of Savannah Lakes Village, have interests in the SVD. Despite numerous interested parties, no one office, person, or department is knowledgeable about the full scope and nature of SVD transactions. As a result, I proposed and made adjustments to reduce current income by $234,357 and my audit procedures detected a $98,520 non-cash transaction which was omitted from disclosures provided by Department of Commerce personnel. In addition, Department of Commerce was not aware that the Treasurer’s Office is working with McCormick County to change various terms of its note payable to the SVD, and, in fact, that at least one change has already been made.

I recommend that the State consider sun-setting the SVD, at least to the extent that it serves as an intermediary for the loan the State made to McCormick County to facilitate development of Savannah Lakes Village. I recommend that the State consider having the SVD assign its loan receivable from McCormick County to the appropriate Budget and Control Board-related entity so that payments can go directly to the accounts of the initiating lender agency. Removing the SVD from the middle of this transaction would relieve Commerce Department accountants from a non-routine task for which they do not have adequate information.

Comment 2006-2 -- Interest Receivable from McCormick County Related to Note Receivable

While adequate funds have been on hand to pay annual principal and interest payments on the SVD’s debt to the Insurance Reserve Fund, the SVD’s financial statements carry a $1,439,630 receivable from McCormick County over and above the $13,565,057 loan receivable balance.

There was no receivable balance until fiscal 2002. At June 30, 2002, the interest receivable balance was only $91,119. Since that time, the amount has grown to $1.4 million because McCormick County has not remitted timely monthly payments as required by the applicable loan documents and/or because McCormick County is experiencing a high delinquency rate as it collects the required Special Tax.

McCormick County is seeking approval of significant changes in the terms of the Master Note Agreement. Before the applicable State officials agree, they should consider how best to collect the balance of this significant receivable. I further recommend that the State consider assisting the residents of Savannah Lakes Village in determining whether
adequate internal control is in place to assure that monthly assessments collected by McCormick County are remitted timely to the State Treasurer and that delinquent assessments are reliably identified and addressed.

WALDA WILDMAN, LLC
Certified Public Accountant
STATUS OF PRIOR YEAR=S FINDINGS

August 28, 2006

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the 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, 2005, I commented that McCormick County was not making regular monthly transmittals of the funds it collects from the residents of Savannah Lakes Village to the State Treasurer as required by the Supplemental Infrastructure Development Note, Series 1992. I made the same comment for the year ended June 30, 2004. I recommended that Management consider following up on the status of receipts from the County in order to insure retirement of the debt to the Insurance Reserve Fund. I noted that there was no provision to ensure the timeliness of these payments or to determine whether Savannah Lakes Village residents are actually making the required payments and, if so, whether the county is remitting what it collects.

During fiscal 2006, McCormick County terminated monthly billing and began billing Savannah Lakes Village lot/unit owners annually in conjunction with real property tax billing. In January 2006, the County remitted a single payment for the year to the State Treasurer. The County has requested that the Master Note Agreement be amended to permit this billing/remittance procedure.

I have commented on this matter again this year. (See Auditor=s Comment 2006-2).

WALDA WILDMAN, LLC
Certified Public Accountant