

**SOUTH CAROLINA CONSERVATION BANK**

**COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**

*State of South Carolina*



*Office of the State Auditor*

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

RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

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

October 5, 2012

The Honorable Nikki R. Haley, Governor  
and  
Members of the Board  
South Carolina Conservation Bank  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Conservation Bank for the fiscal year ended June 30, 2012, 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,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

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

RHGjr/cwc

**SOUTH CAROLINA CONSERVATION BANK**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the South Carolina Conservation Bank ("the Bank") as of and for the year ended June 30, 2012. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 the 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 the Conservation Bank reporting entity are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions that comprise the South Carolina Conservation Bank reporting entity. They do not purport to and do not present the financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include any other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bank as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2012, on our consideration of the Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Expenditures – Budget and Actual, and the Notes to the Schedule of Expenditures – Budget and Actual on pages 3 through 7 and 22 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about

the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Rogers Lalor, PA*

September 10, 2012

# South Carolina Conservation Bank

## Management's Discussion and Analysis

The South Carolina Conservation Bank (the "Bank") was created by the South Carolina Conservation Bank Act and was passed into law by the General Assembly by Act No. 200 and signed by the Governor in 2002. The Conservation Bank was established for the purpose of making grants and loans to public and private entities to acquire interests in real properties worthy of conservation, to provide for the governance of the Bank, to provide those entities eligible to receive bank grants, to establish the South Carolina Conservation Bank Trust Fund to receive revenue and to provide the criteria which the Bank must use in judging applications for grants and to provide that revenue of the State portion of the deed recording fee credited to the General Fund of the State is instead credited to the South Carolina Conservation Bank Trust Fund. The Bank's funding is derived primarily from documentary stamp taxes whereby the Bank receives 25 cents of every \$1.30 of documentary stamp taxes collected by the State. In 2011, the Bank received none of this revenue due to statewide budget cuts in accordance with SC Code § 48-59-75.

### **Financial Highlights:**

Total assets increased by \$1,541,703 primarily due to an increase in state appropriations of \$500,000 and a decrease in conservation grant expenses of \$834,742. Total change in net assets was \$1,538,574 due to a slight increase in compensated absences and related benefits. The Bank did not received any Documentary Stamp revenue in 2011-2012 due to statewide budget cuts in accordance with SC Code § 48-59-75. Operating Funds of \$207,050 were obtained from Department of Labor, Licensing & Regulation and \$2,000,000 funding amount from a State appropriation by legislative proviso.

Program expenses including conservation grants and operating costs were \$690,088. The Bank was funded in the amount authorized by the Legislature and operated under the restricted amount.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Bank's basic financial statements. The Bank's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

## Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Bank's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Bank's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Bank is improving or deteriorating. A condensed statement of net assets for June 30, 2011 and 2010 is as follows:

	NET ASSETS	
	2012	2011
<b>Assets</b>		
Cash and cash equivalents	\$231,673	\$687,839
Due from General Fund of the State	2,000,000	0
Receivables	1,614	2,976
Total assets	<u>2,233,287</u>	<u>690,815</u>
<b>Liabilities</b>		
Accounts payable & accrued expenses	49,212	45,314
Total liabilities	<u>49,212</u>	<u>45,314</u>
<b>Net Assets</b>	<u>\$2,184,075</u>	<u>\$645,501</u>

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue and expenses are reported in this statement for some items that could only result in cash flows in future fiscal periods. A condensed statement of activities for the years ended June 30, 2012 and 2011 is as follows:

<b>Program Revenue</b>		
Operating grants & contributions	\$11,840	\$13,364
<b>General Revenue</b>		
Appropriations	2,000,000	1,500,000
Interest income/other	9,772	16,311
Total Revenues	<u>2,021,612</u>	<u>1,529,675</u>
<b>Expenses</b>		
Conservation Trust grants	499,038	1,333,780
General government	191,050	187,313
Total expenses	<u>690,088</u>	<u>1,521,093</u>
Transfer from Dept of Labor License & Regulation	<u>207,050</u>	<u>207,050</u>
<b>Change in Total Assets</b>	<u>\$1,538,574</u>	<u>\$215,632</u>

The changes between the two years resulted because the Bank was allocated additional state appropriations in 2012 and expended less for conservation grants. The Conservation Bank received \$2,000,000 in state appropriations at the end of FY 2011-2012 and a transfer of \$207,050 to fund operating expenses as set forth in a budget proviso.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The South Carolina Conservation Bank, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Bank are currently defined as **other** governmental funds.

*Governmental funds.* *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues,

expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Bank currently maintains only one individual governmental fund (a special revenue fund). The Bank adopts an annual appropriated budget for this fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

#### **Government-Wide Financial Analysis:**

At June 30, 2012, total assets were \$2,233,287. General government expenses, principally salaries and benefits and grants totaled \$690,088. No documentary stamp tax revenue was received and the Bank's interest earnings were \$9,772 for the year. The total change in net assets was \$1,538,574 for the year.

The Bank has previous commitments to fund conservation projects totaling \$2,703,563 as of June 30, 2012.

#### **Governmental Fund Financial Analysis:**

As noted above, the Bank operates only one governmental fund, its Special Revenue Fund. All of the Bank's activities are accounted for in this fund. The only difference in the fund balance of this fund and the net assets of the Bank is the amount of accrued compensated absences of \$35,111.

#### **General Fund Budgetary Highlights:**

The variances between the final budget and the actual budget are due to the Conservation Bank funding a lower amount of grants than was anticipated. The amount of \$112,011 was the amount allocated by the Office of Budget to the SC Conservation Bank for operating expenses. This amount included carry forwards, interest and Income Tax Check-off from previous years and funding received from DLLR that was supposed to be credited to the Bank's account in the previous year was not received until this fiscal year. Additionally, because of the questionable budgetary status and whether the Bank would continue in existence because of statutory provisions the Bank reduced its normal spending needed for equipment, supplies legal fees, travel, and Heirs' Property research requirements to an absolute minimum. This explanation would account for the variance between what the Budget Office allocated and what was actually expended for operating expenses. The difference between the two numbers will be carried forward to the next fiscal year.

#### **Capital Asset and Debit Administration:**

The SC Conservation Bank has no capital assets or debt.

### **Economic Factors and Next Year's Budgets and Rates:**

For fiscal year 2012-2013 the SC Conservation Bank's primary revenue source (documentary deed stamp revenue) has been re-established along with the operating funds in compliance with state statute SC Code § 48-59-10 *et seq.* The Conservation Bank will not receive any designated appropriations or operating funds transfers during FY 2012-13.

### **Request for Information**

This financial report is designed to provide a general overview of the South Carolina Conservation Bank's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Executive Director  
South Carolina Conservation Bank  
Post Office Box 167  
Columbia, South Carolina 29202

**SOUTH CAROLINA CONSERVATION BANK**

**STATEMENT OF NET ASSETS  
JUNE 30, 2012**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 231,673
Due from General Fund of the State	2,000,000
Accounts receivable	353
Interest receivable	1,261
	<hr/>
Total assets	<u><u>\$ 2,233,287</u></u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 198
Accrued payroll and benefits	13,903
Accrued compensated absences and related benefits	35,111
	<hr/>
Total liabilities	49,212
<b>Net Assets</b>	
Unrestricted	<hr/> 2,184,075
Total liabilities and net assets	<u><u>\$ 2,233,287</u></u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA CONSERVATION BANK**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012**

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Functions/Programs:			
General government	\$ 690,088	\$ 11,840	\$ (678,248)
Total primary government	<u>\$ 690,088</u>	<u>\$ 11,840</u>	(678,248)
General revenue:			
State appropriations			2,000,000
Interest income			9,772
Transfer from State Department of Labor, Licensing, and Regulation			<u>207,050</u>
Change in net assets			1,538,574
Net assets - beginning			<u>645,501</u>
Net assets-ending			<u>\$ 2,184,075</u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA CONSERVATION BANK**

**BALANCE SHEET**

**JUNE 30, 2012**

	<u>Special Revenue</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 231,673
Due from General Fund of the State	2,000,000
Accounts receivable	353
Interest receivable	1,261
	<u>1,261</u>
Total assets	<u>\$ 2,233,287</u>
<b>Liabilities and Fund Balance</b>	
Liabilities:	
Accounts payable	\$ 198
Accrued payroll and benefits	13,903
	<u>13,903</u>
Total liabilities	<u>14,101</u>
Fund balance:	
Spendable - Committed	2,219,186
	<u>2,219,186</u>
Total fund balance	<u>2,219,186</u>
Total liabilities and fund balance	<u>\$ 2,233,287</u>
<b>Reconciliation to the statement of net assets:</b>	
Total fund balance	\$ 2,219,186
Amount reported for governmental activities in the statement of net assets are different because:	
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:	
Accrued compensated absences and related benefits	(35,111)
	<u>(35,111)</u>
Net assets of governmental activities	<u>\$ 2,184,075</u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA CONSERVATION BANK**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2012**

	<u>Special Revenue</u>
<b>Revenues:</b>	
State appropriations	\$ 2,000,000
Interest	9,772
Other income	<u>11,840</u>
Total revenue	<u>2,021,612</u>
<b>Expenditures:</b>	
Grants paid	499,038
Personal services	132,238
Employer contributions	35,876
Other operating	<u>19,807</u>
Total expenditures	<u>686,959</u>
Excess of revenues over expenditures	1,334,653
<b>Other financing sources:</b>	
Transfers from State Department of Labor, Licensing, and Regulation	<u>207,050</u>
Excess of revenues over expenditures and other financing sources	1,541,703
Fund balance - beginning of year	<u>677,483</u>
Fund balance - end of year	<u><u>\$ 2,219,186</u></u>
<b>Reconciliation to the statement of activities:</b>	
Net change in fund balance - total government funds	\$ 1,541,703
Some items reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in government funds. These activities consist of:	
Increase in compensated absences and related benefits	<u>(3,129)</u>
Change in net assets of government activities	<u><u>\$ 1,538,574</u></u>

**See accompanying Notes to Financial Statements.**

## SOUTH CAROLINA CONSERVATION BANK

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

#### Note 1. Summary of Significant Accounting Policies

The South Carolina Conservation Bank (the "Bank") was created by the South Carolina Conservation Bank Act and was passed into law by the General Assembly by Act No. 200 and signed by the Governor in 2002. The Conservation Bank was established for the purpose of making grants and loans to public and private entities to acquire interests in real properties worthy of conservation, to provide for the governance of the Bank, to provide those entities eligible to receive bank grants, to establish the South Carolina Conservation Bank Trust Fund to receive revenue and to provide the criteria which the Bank must use in judging applications for grants and to provide that revenue of the State portion of the deed recording fee credited to the General Fund of the State is instead credited to the South Carolina Conservation Bank Trust Fund.

#### Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, 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. The Conservation Bank is part of the primary government of the State of South Carolina, and its funds are reported in the State's Comprehensive Annual Financial Report. Generally, all state agencies are included in the State's reporting entity. These entities are financially and fiscally dependent on the State.

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. The financial reporting entity includes the Conservation Bank (a primary entity).

A primary entity is financially accountable if its officials or appointees appoint a voting majority of an 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 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 independent if it holds all of the following powers:

- (1) Determine its budget without another government having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

The organization is fiscally dependent on the primary government/entity, which holds one or more of those powers. Based on these criteria, the Conservation Bank has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the Conservation Bank.

The South Carolina Conservation Bank is an independent state agency established by South Carolina State Law in 2002 to provide funding for habitat protection efforts.

## SOUTH CAROLINA CONSERVATION BANK

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

#### **Governmental Funds**

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; the difference between the assets and liabilities is fund balance.

The Bank reports the following major fund:

**Special Revenue Fund** - Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Separate programs/funds have been established for federal grants and federal programs and for each department of the Conservation Bank that administers restricted proceeds.

#### **Government-wide and Fund Financial Statements**

The financial statements of the Bank are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary entity and its component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Bank uses different availability periods for recognizing these revenues. Grant revenues are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues from sales of goods and services are recognized if received within one month after fiscal year-end. Other revenues are recognized if expected to be collected within one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

## **SOUTH CAROLINA CONSERVATION BANK**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012**

#### **Revenues – Exchange and Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Bank, available means expected to be received within one year of the fiscal year-end.

Non-exchange transactions, in which the Bank receives value without directly giving value in return, include grants and contributions. On an accrual basis, revenue from grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Bank must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Bank on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

#### **Budgetary Controls**

The following is a description of the budgetary process of the South Carolina Conservation Bank:

Several months prior to the start of the fiscal year, the Executive Director of the South Carolina Conservation Bank develops a budget proposal for revenue and expenditures. The proposal is based on limited knowledge of future events.

#### **Cash and Cash Equivalents**

The amounts shown in the financial statements as “cash and cash equivalents” represents cash on deposit with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State’s internal cash management pool.

Most State agencies, including the Bank, participate in the State’s internal cash management pool.

Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. 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 of three months or less at the time of purchase.

## **SOUTH CAROLINA CONSERVATION BANK**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012**

#### **Compensated Absences**

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end up to 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 amount, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The Conservation Bank calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded as a liability in the statement of net assets.

#### **Fund Balances**

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) effective for reporting periods after June 15, 2010. The statement establishes fund balance classifications, provides for a hierarchy of spending constraints for spendable resources and requires disclosure of nonspendable and spendable resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact.

GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints as follows:

Restricted – Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

Committed – Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.

Assigned – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose.

Unassigned – Fund balances that are not constrained for any particular purpose.

At June 30, 2012, all of the Bank's net assets have been classified as committed for conservation projects.

#### **Use of Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from those estimates.

**SOUTH CAROLINA CONSERVATION BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**Note 2. Deposits**

All deposits of the Bank are under the control of the State Treasurer who, by law, has sole authority for investing State funds.

The following schedule reconciles deposits within the footnotes to the financial statement amounts:

<u>Financial Statements</u>	<u>Footnotes</u>
Governmental fund:	Deposits held by
Cash and cash equivalents <u>\$ 231,673</u>	State Treasurer <u>\$ 231,673</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.

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

**Note 3. Pension Plan and Other Employee Benefits**

The Retirement Division of the State Budget and Control Board maintains five 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 five pension plans are included in the CAFR of the State of South Carolina.

All employees of the Conservation Bank are eligible to participate in the South Carolina Retirement System and the State Health Insurance Group Plan. The South Carolina Retirement System (SCRS) is a cost-sharing multiple-employer defined benefit public employee retirement system which provides annuity benefits as well as disability and group life insurance benefits to eligible employees and retirees. Section 9-1-480 Code of Laws of South Carolina, 1976 (as amended), states that all State employees unless specifically exempted shall become members of SCRS as a condition of their employment. The responsibility for administration of the systems is assigned by law to the State Budget & Control Board. The Conservation Bank has no fiduciary responsibility or further liability for the retirement plan beyond the current contributions.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55.

## **SOUTH CAROLINA CONSERVATION BANK**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012**

Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job-related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period.

Since July 1, 2006, employees participating in the SCRS have been required to contribute 6.5% of all compensation. Effective July 1, 2011, the employer contribution rate became 13.685 percent, which included a 4.30 percent surcharge to fund retiree health and dental insurance coverage. The Bank's actual contributions to SCRS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$12,380, \$12,188, and \$12,188 and equaled the required contributions of 9.385%, 9.24%, and 9.24% percent (excluding the surcharge) for 2012, 2011, and 2010, respectively. Also, the Board paid employer group-life insurance contributions of \$198 in the current fiscal year at the rate of .15 percent of compensation.

SCRS does not make separate measurements of assets and pension benefit obligations for individual employers. Accordingly, information regarding the excess, if any, applicable to the Conservation Bank of the actuarially computed value of vested benefits over the total of the applicable pension fund and any balance sheet accruals, less any pension prepayments or deferred charges, is not available. By State law, the Conservation Bank's liability under the retirement plan is limited to the amounts contributed during the year. Accordingly, the Bank recognized no contingent liability for unfunded costs associated with participation in the plan.

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).

#### **Note 4. Post-Employment and Other Employee Benefits**

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Bank contributes to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit.

## **SOUTH CAROLINA CONSERVATION BANK**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012**

For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system.

Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

Section 1-11-705 and 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these post-employment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.30% and 3.90% of annual covered payroll for 2012 and 2011, respectively. The EIP sets the employer contribution rate based on a pay-as-you-go basis.

The Bank paid \$5,672 and \$5,144 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2012 and 2011, respectively. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.22 for the fiscal years ended June 30, 2012 and 2011.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

#### **Note 5. Deferred Compensation Plans**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. The employees of the South Carolina Conservation Bank did not participate. The multiple-employer plans, created under Internal Revenue Code sections 457, 401(k), and 403(b) are 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. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw the current value of their contributions prior to termination if they meet requirements specified by the applicable plan. The State has no liability for losses under the plans.

**SOUTH CAROLINA CONSERVATION BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**Note 6. Changes in Long-Term Obligations**

Changes in long-term obligations for the year ended June 30, 2012, were as follows:

	<u>Beginning Balance July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance June 30, 2012</u>	<u>Due Within One Year</u>
Accrued compensated absences and related benefits :	\$ 31,982	\$ 19,875	\$ (16,746)	\$ 35,111	\$ 35,111
	<u>\$ 31,982</u>	<u>\$ 19,875</u>	<u>\$ (16,746)</u>	<u>\$ 35,111</u>	<u>\$ 35,111</u>

**Note 7. Transactions With State Entities**

The Conservation Bank has significant transactions with various South Carolina State agencies.

Services received at no cost from state agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General and Department of Natural Resources, check preparation, banking functions from the State Treasurer, legal services from the Attorney General, interagency mail services from the State Budget and Control Board, and record storage from the Department of Archives and History.

Pursuant to Section 48-59-75 of the South Carolina Code of Laws, the Bank did not receive any additional documentary stamp tax revenues for the year because of the decrease in appropriation revenue available to all state agencies during the current fiscal year.

Subsequent to year end, the Bank received \$2,000,000 in State appropriations pursuant to Proviso 90.22 of the 2011 – 2012 Appropriations Act. None of these funds were spent in the current year and the funds were carried forward pursuant to Proviso 90.22 of the 2011 – 2012 Appropriations Act.

Pursuant to Proviso 89.87 of the 2011 – 2012 Appropriations Act, the South Carolina Department of Labor, Licensing and Regulation transferred \$207,050 to the Bank which was used for personal services and other operating expenses.

**Note 8. Risk Management**

The Bank is exposed to various risks of loss and maintains State or commercial insurance coverage for certain 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. The Bank 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.

## SOUTH CAROLINA CONSERVATION BANK

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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 (Department of Employment and Workforce);
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.

The Bank 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. Torts.

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. The IRF's rates are determined actuarially.

The Bank has not reported an estimated claims loss expenditure, and the related liability at June 30, 2012, 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, 2012 and the amount of the loss is reasonably estimable have not been satisfied.

**SOUTH CAROLINA CONSERVATION BANK**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**Note 9. Commitments / Subsequent Events**

The Conservation Bank entered into various agreements for conservation projects of which \$2,703,563 is committed at June 30, 2012. The following provides a list of these projects:

Chick Springs	\$	250,000
Lakemont Colony		75,000
Langley Pond Park		648,800
Middleton Place/Edmondston-Alston Family Trust		500,000
Jeremiah Project		50,000
DuPre House and Property		250,000
Chau-Ram Tract		250,000
Todd Farms		154,763
Tumbling Shoals		300,000
Sutherland Property		225,000
		<u>225,000</u>
	\$	<u><u>2,703,563</u></u>

These funds will be disbursed once all required documents, contracts and other information is received and approved by the Conservation Bank and funds are available.

The Board approved approximately \$5,050,000 in additional projects at a meeting on July 24, 2012. In addition, the Board voted to reduce the \$2,703,563 shown as committed above by \$650,000 related to the DuPre House, Sutherland Property and Middleton Place projects.

**SOUTH CAROLINA CONSERVATION BANK**

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Conservation Trust grants	\$ 611,279	\$ 611,279	\$ 499,038	\$ 112,241
Personal Services	132,000	132,000	131,909	91
Employer contributions	39,599	39,599	35,634	3,965
Other operating	112,011	112,011	19,807	92,204
Total expenditures	<u>\$ 894,889</u>	<u>\$ 894,889</u>	<u>\$ 686,388</u>	<u>\$ 208,501</u>

**See accompanying Notes to the Schedule of Expenditures – Budget and Actual**

## SOUTH CAROLINA CONSERVATION BANK

### NOTES TO SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL (NON-GAAP BASIS) JUNE 30, 2012

#### **Note 1. Budgetary Funds:**

South Carolina's Annual Appropriations Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

*General Funds.* These funds are generally operating funds. The resources in these funds are primarily taxes. The State expends General Funds to provide traditional State government services. The General Funds column in the Appropriations Act differs somewhat from the GAAP General fund and is referred to within these notes and in the accompanying schedule as the *Budgetary General Fund*.

*Total Funds.* The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

Amounts obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds column in the Appropriations Act are referred to within these notes and in the accompanying schedules as *Other Budgeted Funds*.

#### **Note 2. Basis of Budgeting:**

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Unexpended Appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. Cash-basis accounting for payroll expenditures is required.

State law does not precisely define the State's basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- (i) Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 20.
- (ii) Certain revenues collected in advance are recorded as liabilities (deferred revenues) rather than as revenues.
- (iii) The following taxes are recorded on the modified accrual basis in accordance with State law: admissions tax, alcoholic liquors tax, beer and wine tax, business license tax, documentary tax, electric power tax, and retail sales taxes.
- (iv) Certain non-cash activity, such as food stamp benefits, is recorded as revenue and expenditure in the fiscal year in which the resources are distributed to the beneficiaries.
- (v) All other revenues are recorded only when the State receives the related cash.

#### **Note 3. Reconciliation of Budget to GAAP Reporting Differences:**

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist principally of reclassifications from financial statement fund types of budgetary fund categories, reversals of payroll accruals and the related fringe benefits, and removals of unbudgeted accounts and funds, if any. Acquisitions of fixed assets by donation are unbudgeted and capital lease and installment purchase transactions are budgeted in the year of payment.

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

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

We have audited the financial statements of the South Carolina Conservation Bank ("the Bank") as of and for the year ended June 30, 2012, and have issued our report thereon dated September 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Bank is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Bank's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying schedule of findings as item 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Bank's financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

*Going Beyond The Numbers*

The Bank's response to the finding identified in our audit is described in Appendix A. We did not audit the Bank's response and, accordingly, we express no opinion on it.

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

*Rogers Lata, PA*

September 10, 2012

## **SOUTH CAROLINA CONSERVATION BANK**

### **SCHEDULE OF FINDINGS**

**JUNE 30, 2012**

#### 2012-1 Deficiencies Noted in Financial Records and Statements

**Condition:** Our audit disclosed deficiencies in the preparation of the financial statements and recording of two transactions in the books of the Bank. The deficiencies are described as follows:

1. The Bank recorded a payment for workers' compensation of approximately \$4,000 to a revenue account instead of an expense account. The correcting entry was made twice resulting in an overstatement of revenue and expense. Bank personnel did not detect the error.
2. The Bank recorded a reimbursement of expense of approximately \$1,000 as revenue. The reimbursement was also recorded a second time as a reimbursement of expense. This resulted in an overstatement of cash and revenue. Bank personnel did not detect the error.

**Cause:** The Bank did not review the transactions that were recorded in the South Carolina Enterprise Information System (SCEIS) to ensure that account balances were properly stated.

**Effect:** Procedures in place by the Bank did not detect items that caused the financial records to be inaccurate.

**Criteria:** Generally accepted accounting principles require that all transactions be properly recorded and good internal control procedures require procedures to be in place to detect errors.

**Recommendation:** The Bank should ensure that all transactions recorded in SCEIS are properly reviewed by someone other than the preparer to ensure accuracy of financial records. The Bank should implement procedures to ensure that all information used to prepare the financial statements is accurate. The Bank should ensure that all information reported in the financial statements is accurately stated in accordance with generally accepted accounting principles.

**SOUTH CAROLINA CONSERVATION BANK**

**STATUS OF PRIOR FINDINGS  
JUNE 30, 2012**

During our current audit, we reviewed the status of action taken on the findings we reported on our report on the financial statements of the Bank dated September 8, 2011 resulting from the audit of the financial statements for the year ended June 30, 2011. The following finding was reported:

2011-1 Deficiency noted in financial records and statements

We noted a similar deficiency during the current year engagement and have reported a similar finding in 2012-1.

# **MANAGEMENT'S RESPONSE**

## **APPENDIX A**

**SOUTH CAROLINA CONSERVATION BANK**

**Post Office Box 167**

**Columbia, South Carolina 29202**

**Marvin N. Davant**

Executive Director

803-734-3986

803-734-6326 fax

September 28, 2012

Kenneth Williams  
Rogers Laban, PA  
CPAs & Financial Consultants  
1919 Bull Street  
Columbia, SC 29201

RE: SC Conservation Bank FY 2011-12 Annual Audit

Dear Kenneth:

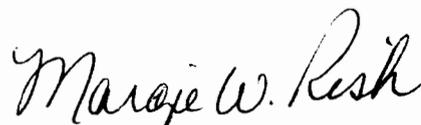
As you requested the following is an explanation of the deficiencies noted on page 26 in your draft report for FY 2011-12.

1. The \$3,965 was entered (Doc # 3900103282) in the SCEIS system and was given the wrong GL account number. As directed by SCEIS, Ms. Rish did a journal entry (#100115948 & # 100119581) to correct the GL account number by showing a credit to the Unemployment Insurance GL Account and a debit to the Worker's Comp GL account. To ensure this does not occur in the future staff will review the account expenditures monthly.
2. The \$962.14 was a refund of prior year expenditure for a grant award on the Sand Creek Farm Tract. The initial award was for \$100,000 to The Nature Conservancy in Dec 2007. The Nature Conservancy transferred the property to the Edisto Island Open Land Trust. In 2011 a condemnation action occurred on a portion of this tract. The Edisto Island Open Land Trust returned a portion of the funds received from the Conservation Bank. The amount refunded was deposited (Doc # 1200175067) as revenue; however Ms. Rish had the wrong Revenue GL Account number. To ensure that this does not occur again the staff will verify with SCEIS as to the proper GL Accounts needed for deposits prior to entering data into the SCEIS system.

If you have any other questions relevant to these items, do not hesitate to contact our office.

Sincerely,

  
Marvin N. Davant  
Executive Director

  
Margie W. Rish  
Business Manager

  
South Carolina  
CONSERVATION  
BANK

**Board of Directors**

Weston Adams, III  
Chairman

William L. Snow, Sr.  
Vice-Chairman

Andrea Clark

Elliott Close

Ben Keys

Nick E. Kremydas

Thomas W. Miller

James W. Roquemore

Harry E. Shealy, Jr.

**Ex-Officio Members**

John P. Evans

Frank A. McLeod, III

Duane N. Parrish