

SOUTH CAROLINA CONSERVATION BANK

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2013

State of South Carolina



Office of the State Auditor

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October 2, 2013

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, 2013, 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

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Conservation Bank ("the Bank") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Going Beyond The Numbers.

Reporting Entity

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.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2013, 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 in considering the Bank's internal control over financial reporting and compliance.

Rogers Lalon, PA

September 13, 2013

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 2013, the Bank received Documentary Deed Stamp Tax revenue in accordance with SC Code § 48-59-10 *et seq.*

Financial Highlights:

Total assets increased by \$2,712,617 primarily due to the SC Conservation Bank receiving full funding from the Documentary Deed Stamp Tax and an increase in conservation grant expenses of \$6,135,944. Total change in net position was \$2,704,980 due to a slight increase in compensated absences and related benefits. The Bank did not receive Documentary Stamp revenue in 2012-2013 in accordance with SC Code § 48-59-10 *et seq.*

Other donations received were \$12,330 from Income Tax Check-Off funds and other outside entities.

Program expenses including conservation grants and operating costs were \$6,843,214. 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 position* presents information on all of the Bank's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Bank is improving or deteriorating. A condensed statement of net position for June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents	\$3,921,880	\$231,673
Due from General Fund of the State	0	2,000,000
Receivables	1,024,024	1,614
Total assets	<u>4,945,904</u>	<u>2,233,287</u>
Liabilities		
Accounts payable & accrued expenses	56,849	49,212
Total liabilities	<u>56,849</u>	<u>49,212</u>
Net Position	<u>\$4,889,055</u>	<u>\$2,184,075</u>

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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, 2013 and 2012 is as follows:

STATEMENT OF ACTIVITIES

	2013	2012
Program Revenue		
Operating grants & contributions	\$12,330	\$11,840
General Revenue		
Documentary Stamp Tax	\$9,504,102	\$0
Appropriations	0	2,000,000
Interest income/other	31,762	9,772
Total Revenues	9,548,194	2,021,612
Expenses		
Conservation Trust grants	6,634,982	499,038
General government	208,232	191,050
Total expenses	6,843,214	690,088
Transfer from Dept of Labor License & Regulation	0	207,050
Change in Total Position	\$2,704,980	\$1,538,574

The changes between the two years resulted because the Bank received regular Documentary Deed Stamp Tax revenue in 2013 and expended more for conservation grants. The Conservation Bank received no state appropriations at the end of FY 2012-2013.

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, 2013, total assets were \$4,945,904. General government expenses, principally salaries and benefits and grants totaled \$6,843,214. Documentary stamp tax revenue was received was \$9,504,102 and the Bank's interest earnings were \$31,762 for the year. The total change in net position was \$2,704,980 for the year.

The Bank has previous commitments to fund conservation projects totaling \$12,808,537 as of June 30, 2013.

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 position of the Bank is the amount of accrued compensated absences of \$36,816.

General Fund Budgetary Highlights:

The variances between the final budget and the actual budget are due to the Conservation Bank funding a higher amount of grants than was anticipated. The amount of \$93,220 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. Additionally, the Bank continued in existence as statutorily established and 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 2013-2014 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 2013-14.

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 POSITION
JUNE 30, 2013**

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 3,921,880
Accounts receivable - documentary stamp taxes	986,419
Accounts receivable - other	31,578
Interest receivable	6,027
	<hr/>
Total assets	<u><u>\$ 4,945,904</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 4,179
Accrued payroll and benefits	15,854
Accrued compensated absences and related benefits	36,816
	<hr/>
Total liabilities	56,849
Net Position	
Unrestricted	<u>4,889,055</u>
Total liabilities and net position	<u><u>\$ 4,945,904</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA CONSERVATION BANK

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Functions/Programs:			
General government	\$ 6,843,214	\$ 12,330	\$ (6,830,884)
Total primary government	<u>\$ 6,843,214</u>	<u>\$ 12,330</u>	(6,830,884)
General revenue:			
Documentary stamp taxes			9,504,102
Interest income			<u>31,762</u>
Change in net position			2,704,980
Net position - beginning			<u>2,184,075</u>
Net position - ending			<u>\$ 4,889,055</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA CONSERVATION BANK

**BALANCE SHEET
JUNE 30, 2013**

	<u>Special Revenue</u>
Assets	
Cash and cash equivalents	\$ 3,921,880
Accounts receivable - documentary stamp taxes	986,419
Accounts receivable - other	31,578
Interest receivable	6,027
Total assets	<u>\$ 4,945,904</u>
Liabilities and Fund Balance	
Liabilities:	
Accounts payable	\$ 4,179
Accrued payroll and benefits	15,854
Total liabilities	<u>20,033</u>
Fund balance:	
Spendable - Committed	<u>4,925,871</u>
Total fund balance	<u>4,925,871</u>
Total liabilities and fund balance	<u>\$ 4,945,904</u>
Reconciliation to the statement of net position:	
Total fund balance	\$ 4,925,871
Amount reported for governmental activities in the statement of net position 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	<u>(36,816)</u>
Net position of governmental activities	<u>\$ 4,889,055</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA CONSERVATION BANK

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2013**

	<u>Special Revenue</u>
Revenues:	
Documentary stamp taxes	\$ 9,504,102
Interest	31,762
Other income	<u>12,330</u>
Total revenue	<u>9,548,194</u>
Expenditures:	
Grants paid	6,634,982
Personal services	147,000
Employer contributions	36,510
Other operating	<u>23,017</u>
Total expenditures	<u>6,841,509</u>
Excess of revenues over expenditures	2,706,685
Fund balance - beginning of year	<u>2,219,186</u>
Fund balance - end of year	<u><u>\$ 4,925,871</u></u>
Reconciliation to the statement of activities:	
Net change in fund balance - total government funds	\$ 2,706,685
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>(1,705)</u>
Change in net position of government activities	<u><u>\$ 2,704,980</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013

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 position and the statement of activities) 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, 2013

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.

Accounts Receivable

Accounts receivable for documentary stamp taxes represent amounts received in July from the South Carolina Department of Revenues for amounts collected as of June 30, 2013. Accounts receivable – other represents a refund due from a grantee as well as amounts due from the South Carolina Department of Revenue which were received by the Bank in July for voluntary contributions collected as of June 30, 2013.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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, 2013, 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.

Change in Accounting Principle

For 2013, the Bank implemented Governmental Accounting Standard Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in the Bank's 2013 financial statements; however, there was no effect on beginning net position/fund balance.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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>\$ 3,921,880</u>	State Treasurer <u>\$ 3,921,880</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 Plans

All employees of the Bank are eligible to participate in a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members.

The Retirement Division 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 South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90).

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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 (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are payable to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members qualify for disability annuity benefits provided they have a minimum of eight years of credited service. An incidental death 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 or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018.

Effective July 1, 2012, employees participating in the SCRS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for SCRS was 15.15%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death program and a 4.55% surcharge that will fund retiree health and dental insurance coverage. Employer contributions for State ORP include a 5.45% employer retirement contribution, 4.55% retiree insurance surcharge and .15% incidental death benefit. The Bank's actual contributions to the SCRS for the years ended June 30, 2013, 2012, and 2011 were approximately \$15,000, \$12,000, and \$12,000, respectively, and equaled the base required retirement contribution rate, excluding surcharge, of 10.45% for 2013, 9.385% for 2012 and 9.24% for 2011. Also, the Bank paid employer incidental death program contributions of approximately \$200, \$200, and \$200, at the rate of .15% of compensation for the current fiscal years ended June 30, 2013, 2012, and 2011 respectively.

The amounts paid by the Bank for pension, incidental death program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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.

For the current fiscal year, SCRS does not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Bank's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Bank recognizes no contingent liability for unfunded costs associated with participation in the plan.

Note 4. Post-Employment Benefits Other than Pensions

Plan Description

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 South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA).

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 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.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, 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, 4.55% of annual covered payroll for 2013 and 4.30% of annual covered payroll for 2012. The IB sets the employer contribution rate based on a pay-as-you-go basis.

The Bank paid approximately \$6,000 and \$6,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2013 and 2012, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2013 and 2012.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

The Bank recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$4,000 and \$4,000 for the years ended June 30, 2013 and 2012, respectively.

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 SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

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.

Note 6. Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2013, were as follows:

	Beginning Balance July 1, 2012	Increases	Decreases	Ending Balance June 30, 2013	Due Within One Year
Accrued compensated absences and related benefits :	\$ 35,111	\$ 24,261	\$ (22,556)	\$ 36,816	\$ 36,816
	<u>\$ 35,111</u>	<u>\$ 24,261</u>	<u>\$ (22,556)</u>	<u>\$ 36,816</u>	<u>\$ 36,816</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.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Pursuant to Section 12-24-95 of the South Carolina Code of Laws, the Bank received \$9,504,102 of documentary stamp tax revenues in the current year from the South Carolina Department of Revenue.

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.

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 (Public Employee Benefit Authority – Insurance Benefits).
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Public Employee Benefit Authority – Insurance Benefits).

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, 2013, 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, 2013 and the amount of the loss is reasonably estimable have not been satisfied.

SOUTH CAROLINA CONSERVATION BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 9. Commitments

The Conservation Bank entered into various agreements for conservation projects of which \$12,808,537 is committed at June 30, 2013. The following provides a list of these projects:

Chick Springs	\$	250,000
Jeremiah Project		50,000
Chau-Ram Tract		250,000
Calhoun Tract		308,000
Lombard Tract		55,000
Ramsay Farms		130,000
Ivester Von Lehe Farms		114,500
Marion Powell Tract		84,375
Knowlton Farms		316,470
Ballsdam Plantation		815,500
Neil McPhail Tract		232,187
Shirley Tract		439,875
Powers Tract		165,110
Murray Tract		78,400
Glover Tract		411,800
Congaree Carton		1,228,000
Nine Times B&C		1,500,000
Rocky River Nature Park		149,070
Dusty Acres Tract		238,840
Willow Oaks Gun Club Tract		195,000
Williamson Waterfowl Farm Tract		63,000
Exley Planation		1,325,000
Johnathan Graham		758,010
Greenfield Plantation		500,000
Green Mountain Tract		135,000
Halidon Hill Plantation		62,000
Kel-Sam Farms		850,000
Liberty Hill Tract		1,500,000
Sanders Farm Tract		89,400
Wesleyan Camp Tract		160,000
Battery Wilkes Tract		354,000
		<u>354,000</u>
	\$	<u>12,808,537</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.

Subsequent to year end, \$815,500 was uncommitted due to withdrawal by grantee.

SOUTH CAROLINA CONSERVATION BANK

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP BASIS)
YEAR ENDED JUNE 30, 2013**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Conservation Trust grants	\$ 7,240,289	\$ 9,240,289	\$ 6,634,982	\$ 2,605,307
Personal Services	132,000	152,150	145,374	6,776
Employer contributions	33,000	38,240	36,185	2,055
Other operating	118,610	93,220	23,017	70,203
Total expenditures	<u>\$ 7,523,899</u>	<u>\$ 9,523,899</u>	<u>\$ 6,839,558</u>	<u>\$ 2,684,341</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, 2013

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.

**INDEPENDENT AUDITOR'S 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, 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, the financial statements of the South Carolina Conservation Bank ("the Bank") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements and have issued our report thereon dated September 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control.

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. A significant deficiency is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers Lalan, PA

September 13, 2013

SOUTH CAROLINA CONSERVATION BANK

STATUS OF PRIOR FINDINGS

JUNE 30, 2013

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 10, 2012 resulting from the audit of the financial statements for the year ended June 30, 2012. The following finding was reported:

2012-1 Deficiency noted in financial records and statements

The finding listed above has been corrected.