

SOUTH CAROLINA CONSERVATION BANK

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

State of South Carolina



Office of the State Auditor

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September 18, 2014

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, 2014, was issued by Greene, Finney & Horton, LLP, 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/sag

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of South Carolina Conservation Bank (the "Bank") as of and for the year ended June 30, 2014, 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 from 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 policies used and the reasonableness of significant accounting 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of South Carolina Conservation Bank as of June 30, 2014, 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.

Emphasis of Matter

As discussed in Note A, the financial statements of the South Carolina Conservation Bank are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and major fund of the State of South Carolina that is attributable to the Bank. They do not purport to, and do not present fairly the financial position of the State of South Carolina as of June 30, 2014 or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Pending Implementation of GASB Statement on Pensions

As discussed in Note G, the Governmental Accounting Standards Board recently issued Statement No. 68 *Accounting and Financial Reporting for Pensions* ("GASB #68"). GASB #68, which will be adopted by the Bank for the fiscal year ended June 30, 2015, will require the Bank to report a net pension liability on its financial statements for its participation in the South Carolina Retirement System ("Plan"). Based on recent information provided by the South Carolina Public Employee Benefit Authority, it is anticipated that the Bank's share of the net pension liability associated with the Plan will decrease the Bank's net position by approximately \$377,000. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule, as listed in the table of contents, 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 18, 2014 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, and 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 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.



Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 18, 2014

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

The following is a discussion and analysis of South Carolina Conservation Bank's financial performance and provides an overview of the activities for the fiscal year ended June 30, 2014. Please read in conjunction with the financial statements, which follow this analysis.

South Carolina Conservation Bank (the "Bank") was established 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. The Bank is part of the primary government of the State of South Carolina (the "State") and its fund is included in the State's Comprehensive Annual Financial Report.

FINANCIAL HIGHLIGHTS

- The Bank's net position, all of which is unrestricted, increased 14% or \$660,750 to \$5,549,805 as a result of this year's operations.
- Total revenues reported in the Statement of Activities were \$11,412,840 for the year ended June 30, 2014, an increase of \$1,864,646 from the prior fiscal year.
- The total expenditures reported in the Statement of Activities were \$10,752,090 for the year ended June 30, 2014, an increase of \$3,908,876 from the prior fiscal year.
- Cash and cash equivalents increased \$616,669 during the fiscal year to \$4,538,549 at June 30, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of two parts – the *Financial Section* (which includes management's discussion and analysis and the financial statements) and the *Compliance Section*.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Bank's financial statements. The Bank's financial statements comprise three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The financial statements present two different views of the Bank through the use of government-wide statements and fund financial statements.

Government-Wide Financial Statements

The financial statements include two kinds of statements that present different views of the Bank. 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, deferred outflows (if any), liabilities, and deferred inflows (if any), with the differences between them 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.

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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The government-wide financial statements can be found as listed in the table of contents.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Bank's most significant activities. 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 Bank, like all other governmental entities in South Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Bank's budget ordinance. All of the funds of the Bank are reported in a single governmental fund.

Governmental Funds – *Governmental funds* are used to account for those functions reported as governmental activities in the government-wide financial statements. The Bank's basic services are accounted for in a governmental fund. This fund focuses on how assets can readily be converted into cash flow (in and out), and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Bank's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Bank maintains one governmental fund, a Special Revenue fund. The governmental fund financial statements can be found as listed in the table of contents.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of the data provided in the financial statements.

Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>
Assets		
Cash and cash equivalents	\$ 4,538,549	\$ 3,921,880
Accounts receivable	1,063,855	1,024,024
Total Assets	<u>5,602,404</u>	<u>4,945,904</u>
Liabilities		
Current Liabilities	52,599	56,849
Total Liabilities	<u>52,599</u>	<u>56,849</u>
Net Position		
Unrestricted	5,549,805	4,889,055
Total Net Position	<u>\$ 5,549,805</u>	<u>\$ 4,889,055</u>

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Bank's net position increased by \$660,750 for the year and consisted of an increase in total assets of \$656,500 and a decrease in total liabilities of \$4,250.

The increase in total assets was primarily due to the \$616,669 increase in cash and cash equivalents as a result of total revenues of \$11,412,480 exceeding total expenses of \$10,752,090.

	Governmental Activities	
	2014	2013
Revenues:		
Program Revenues:		
Operating grants and contributions	\$ 11,735	\$ 12,330
General Revenues:		
Documentary stamp taxes	11,341,147	9,504,102
Interest	58,844	31,762
Miscellaneous	1,114	-
Total Revenues	<u>11,412,840</u>	<u>9,548,194</u>
Expenses:		
General Government	10,752,090	6,843,214
Total Expenses	<u>10,752,090</u>	<u>6,843,214</u>
Net Change in Net Position	660,750	2,704,980
Net Position - Beginning of Year	<u>4,889,055</u>	<u>2,184,075</u>
Net Position - End of Year	<u>\$ 5,549,805</u>	<u>\$ 4,889,055</u>

Revenues exceeded expenses by \$660,750 for fiscal 2014 governmental activities. Total revenues increased from the prior year by approximately \$1,864,646 (16%) to \$11,412,480. The increase can be attributed to a \$1,837,045 (16%) increase in documentary stamp tax revenues received from the State compared to the prior year as a result of the improving real estate market.

Expenses increased \$3,908,876 (36%) over the prior year to \$10,752,090 as a result of a \$3,899,082 (59%) increase in conservation grants disbursed compared to prior year.

GOVERNMENTAL FUND FINANCIAL ANALYSIS

As noted above, the Bank maintains only one governmental fund, a Special Revenue fund. All of the Bank's activities are reported in this fund. The only difference between the fund balance of this fund and the net position of the Bank is the compensated absences accrual which totaled \$36,645 for the current year, an increase of \$171 compared to the prior year.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

BUDGETARY HIGHLIGHTS

Final budgeted expenditures related to conservation trust grants exceeded actual expenditures by \$491,225 due to the Bank funding fewer conservation grants than were anticipated. The timing of grant funding is contingent upon grantees meeting all due diligence requirements. Final budgeted expenditures for other operating costs exceeded actual expenditures by \$193,677 as a result of conservative spending by the Bank. The budget for other operating costs includes carry forward balances from prior years that were not needed to cover current year expenditures. The difference between the original budget and the final amended budget are represented by an increase of \$1,585,000 which was primarily related to increased expenditures allocated to conservation trust grants.

ECONOMIC FACTORS

The Bank's budget for fiscal year 2015 includes a continued focus on providing conservation grants for the purpose of conserving worthy properties throughout the State. The Bank's primary revenue source will continue to be documentary stamp taxes in compliance with state statutes.

CONTACTING THE BANK'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the South Carolina Conservation Bank's finances. Questions concerning any of the information provided in this report or requests for additional 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, 2014

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 4,538,549
Accounts receivable - documentary stamp taxes	1,063,855
TOTAL ASSETS	5,602,404
LIABILITIES	
Accrued payroll, related taxes, and employee benefits	15,954
Long-Term Obligations:	
Due within one year:	
Compensated absences	36,645
TOTAL LIABILITIES	52,599
NET POSITION	
Unrestricted	5,549,805
TOTAL NET POSITION	\$ 5,549,805

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

SOUTH CAROLINA CONSERVATION BANK

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES		NET (EXPENSE)
		Charges for Services	Operating Grants and Contributions	Capital
				REVENUE AND CHANGES IN NET POSITION
				Governmental Activities
Governmental activities:				
General government	\$ 10,752,090	-	11,735	-
Total Governmental Activities	\$ 10,752,090	-	11,735	-
General revenues:				
Documentary stamp taxes				11,341,147
Interest				58,844
Miscellaneous				1,114
Total general revenues				11,401,105
CHANGE IN NET POSITION				660,750
NET POSITION, Beginning of year				4,889,055
NET POSITION, End of year				\$ 5,549,805

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

SOUTH CAROLINA CONSERVATION BANK

BALANCE SHEET

JUNE 30, 2014

	SPECIAL REVENUE
ASSETS	
Cash and cash equivalents	\$ 4,538,549
Accounts receivable - documentary stamp taxes	1,063,855
TOTAL ASSETS	<u>\$ 5,602,404</u>
LIABILITIES	
Accrued payroll, related taxes, and employee benefits	\$ 15,954
TOTAL LIABILITIES	<u>15,954</u>
FUND BALANCE	
Committed:	
Conservation projects	5,586,450
TOTAL FUND BALANCE	<u>5,586,450</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 5,602,404</u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

SOUTH CAROLINA CONSERVATION BANK

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES**

JUNE 30, 2014

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 5,586,450
Amounts reported for the governmental activities in the Statement of Net Position are different because of the following:	
Long-term obligations, including bonds payable and capital leases, are not due or payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	(36,645)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u>5,549,805</u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

SOUTH CAROLINA CONSERVATION BANK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2014

	<u>SPECIAL REVENUE</u>
REVENUES	
Documentary stamp taxes	\$ 11,341,147
Interest	58,844
Other	12,849
TOTAL REVENUES	<u>11,412,840</u>
EXPENDITURES	
Current:	
General Government:	
Grants paid	10,534,064
Personal services	154,601
Employer contributions	41,751
Other operating	21,845
TOTAL EXPENDITURES	<u>10,752,261</u>
NET CHANGES IN FUND BALANCES	660,579
FUND BALANCES, Beginning of Year	<u>4,925,871</u>
FUND BALANCES, End of Year	<u>\$ 5,586,450</u>

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

SOUTH CAROLINA CONSERVATION BANK

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2014

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 660,579**

Amounts reported for the governmental activities in the Statement of Activities
are different because of the following:

Some expenses reported in the Statement of Activities do not require the use of current financial
resources and, therefore, are not reported as expenditures in the governmental funds.

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TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 660,750**

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE A – REPORTING ENTITY

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 Bank is an independent state agency and 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, 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 is part of the primary government of the State of South Carolina, and its fund is reported in the State’s Comprehensive Annual Financial Report. The core of a financial reporting entity is the primary government, which has a separately elected governing body. An organization other than a primary government, such as the Bank, 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 Bank (a primary entity).

The financial statements of the Bank have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”), as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Bank’s accounting policies are described below.

As required by GAAP, the financial statements must present the Bank’s financial information with any of its component units. The primary criterion for determining inclusion or exclusion of a legally separate entity (component unit) is financial accountability, which is presumed to exist if the Bank both appoints a voting majority of the entity’s governing body, and either 1) the Bank is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the Bank. If either or both of the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the Bank and there is a potential that the entity could either provide specific financial benefits to, or to impose specific financial burdens on the Bank.

In order to be considered fiscally independent, an entity must have the authority to do all of the following: (a) determine its budget without the Bank having the authority to approve or modify that budget; (b) levy taxes or set rates or charges without approval by the Bank; and (c) issue bonded debt without approval by the Bank. An entity has a financial benefit or burden relationship with the Bank if, for example, any one of the following conditions exists: (a) the Bank is legally entitled to or can otherwise access the entity’s resources, (b) the Bank is legally obligated or has otherwise assumed the obligation to finance the deficits or, or provide financial support to, the entity, or (c) the Bank is obligated in some manner for the debt of the entity. Finally, an entity could be a component unit even if it met all the conditions described above for being fiscally independent if excluding it would cause the Bank’s financial statements to be misleading.

Blended component units, although legally separate entities, are in substance, part of the government’s operations and data from these units are combined with data of the primary government in the fund financial statements. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the Bank. Based on the criteria above, the Bank does not have any component units.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present the financial position and results of operations solely of the Bank in conformity with accounting principles generally accepted in the United States of America. They do not include any other agencies or funds of the State, nor do they present the financial position of the State, the results of its operations, or its cash flows.

1. Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Bank.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support. The Bank does not have any business-type activities.

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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Bank.

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Bank gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statements are prepared using a different measurement focus from the manner in which governmental fund financial statements are prepared (see further detail below). Governmental fund financial statements therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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. For this purpose, the Bank recognizes revenues from sales of goods and services if they are received within 30 days of the end of the current fiscal period, and other revenues are considered to be available if they are collected within twelve months of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, capital lease expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due and payable. Capital asset acquisitions are reported as capital outlay expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Fund financial statements report detailed information about the Bank. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type. The Bank has only one major fund and does not have any non-major funds or fiduciary funds.

When both restricted and unrestricted resources are available for use, it is the Bank's practice to use restricted resources first, then unrestricted resources as they are needed.

The accounts of the government are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The Bank reports the following governmental fund type and major fund:

Special revenue funds are used to account for and report the proceeds of specific revenue sources (that are expected to continue to comprise a substantial portion of the inflows of the fund) that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The Bank has the following special revenue fund:

The *Special Revenue Fund, a major fund* and a budgeted fund, is used to account for and report the financial resources received and disbursed related to the documentary stamp taxes levied by the State of South Carolina and remitted to the Bank that are legally restricted for expenditures related to habitat protection efforts.

The Bank implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB #65") in the year ended June 30, 2014. GASB #65 establishes accounting and financial reporting standards that require reclassification, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB #65 supplements and extends the reach of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was adopted by the Bank in the year ended June 30, 2013. There were no significant reporting changes as a result of the implementation of GASB #65.

2. Assets, Liabilities, and Equity

Cash and Cash Equivalents: The amounts shown in the financial statements as cash and cash equivalents represent cash on hand with the State Treasurer and cash invested in various instruments by the State Treasurer as part of 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 pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State and certain of its political subdivisions, certificates of deposit, and collateralized repurchase agreements. The State's internal cash management pool consists of a general deposit account and several special deposit accounts.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Assets, Liabilities, and Equity (Continued)

The State records each agency's equity interest in the general deposit account; however, all earnings on the account are credited to the General Fund of the State. The Bank records and reports its deposits in the general deposit account at cost. The Bank reports its deposits in the special deposit accounts at fair value. Investments held by the pool are reported at fair value. Interest earnings are allocated based on the percentage of the Bank's accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains or losses arising from changes in the fair value of investments held by the pool are accrued and allocated at year-end based on the Bank's percentage ownership in the pool. Although the cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit and other risk information pertaining to the cash management pool refer to the footnote on deposits.

Receivables: Accounts receivable for documentary stamp taxes represent amounts received in July from the South Carolina Department of Revenues for amounts collected as of the end of the current fiscal year.

Restricted Assets: It is the policy of the Bank to first apply restricted assets (private donations) when an expense is incurred for purposes for which restricted and unrestricted net position are available.

Compensated Absences and Related Liabilities: Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and 45 days annual vacation leave based upon maximum payout guidelines of the State. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory time earned for which the employees are entitled to paid time off or payment at termination. That liability is calculated at fiscal year-end current salary costs and the cost of the salary-related benefit payments.

Accrued Liabilities: All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current financial resources. However, claims and judgments, debt and capital leases, compensated absences, contractually required pension contributions, special termination benefits and other related long-term liabilities that will eventually be paid from governmental funds are not reported as a liability in the fund financial statements until due and payable.

Fund Balance: In accordance with GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" ("GASB #54"), the Bank classifies its governmental fund balances as follows:

Nonspendable – includes amounts that inherently cannot be spent either because they are not in spendable form (i.e. prepaids, inventories, etc.) or because of legal or contractual requirements (i.e. principal on an endowment, etc.).

Restricted – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.

Committed – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action made by the highest level of decision making authority before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Assets, Liabilities, and Equity (Continued)

Assigned – includes amounts that are intended to be used for specific purposes that are neither considered restricted nor committed and that such assignments are made before the report issuance date.

Unassigned – includes amounts that do not qualify to be accounted for and reported in any of the other fund balance categories.

The Bank generally uses restricted amounts to be spent first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, the Bank generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Net Position: Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows in the Statement of Net Position. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, laws, or regulations of other governments.

Budget Policy: The appropriation as enacted by the General Assembly becomes the legal operating budget for the Bank. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit and within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

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

NOTE C – DEPOSITS

Deposits Held by State Treasurer — All deposits and investments of the Bank are under control of the State Treasurer who, by law, has sole authority for investing State funds. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2014, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or its agents in the State's name. With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are in investments for which the securities are held by the State or its agents in the State's name.

Information pertaining to the reported amounts, fair value, credit and other risks as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. Copies of this report may be obtained from the South Carolina Office of the Comptroller General, 1200 Senate Street, 305 Wade Hampton Office Building, Columbia, South Carolina 29201 or by visiting the Comptroller General's website at <http://www.cg.sc.gov>.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE D – LONG-TERM OBLIGATIONS

The change in compensated absences for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 36,816	17,431	17,602	\$ 36,645	\$ 36,645

NOTE E – RELATED PARTY TRANSACTIONS

State of South Carolina and Agencies:

The Bank has significant transactions with the State and various State agencies.

The Bank receives certain services at no cost from State agencies. The main services received by the Bank from State agencies are: maintenance of certain accounting records and payroll and disbursement processing from the State Comptroller General and Department of Natural Resources, check preparation and banking functions from the State Treasurer, and legal services from the State Attorney General, interagency mail services from the State Budget and Control Board, and record storage from the Department of Archives and History. For certain of these services the Bank also utilizes the services of third parties.

Pursuant to Section 12-24-95 of the South Carolina Code of Laws, the Bank received approximately \$11,341,000 of documentary stamp tax revenues in the current year from the South Carolina Department of Revenue.

NOTE F – RISK MANAGEMENT

The Bank is exposed to various risks of loss, which include property damage, automobile liability, injury and illness to employees, injury to visitors, injury to volunteers, tort liability, and business interruption. The Bank maintains State insurance coverage for each of these 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. The costs of settled claims and claims/losses have not exceeded this coverage in any of the past three years for the insured risks or for self-insured employee fidelity losses in the past three years.

The Bank pays insurance premiums to certain other State agencies 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 accordance with insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

- Claims of State employees for unemployment compensation benefits (Department of Employment and Workforce);
- Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
- Claims of covered public employees for health and dental insurance benefits (South Carolina Public Employee Benefit Authority – Insurance Benefits); and
- Claims of covered public employees for long-term disability and group-life insurance benefits (South Carolina Public Employee Benefit Authority – Insurance Benefits).

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE F – RISK MANAGEMENT (CONTINUED)

Employees elect health coverage either through 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-insured 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 (the "IRF") which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following Bank assets, activities, and/or events:

- Theft of, damage to, or destruction of assets;
- Real property, its contents, and other equipment;
- Motor vehicles, aircraft, and watercraft (inland marine);
- Torts;
- Business interruptions; and
- Natural disasters

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, and automobile liability. Also, the IRF purchases reinsurance for catastrophic property insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for aircraft and ocean marine coverage. The IRF's rates are determined actuarially.

In management's opinion, claims losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to the Bank's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expense and liability should be recorded at year-end. Therefore, no loss accrual has been recorded.

NOTE G – RETIREMENT PLAN

The majority of employees of the Bank are covered by a retirement plan through the South Carolina Retirement System ("SCRS"), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the PEBA. 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 eligible members, as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental death 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, SC 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE G – RETIREMENT PLAN (CONTINUED)

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 SCRS 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). 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 available 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 can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

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. Teacher and Employee Retention Incentive ("TERI") program 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 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 benefit 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 and a member's participation may not continue after this date.

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.50% of all earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Bank's actual contributions to the SCRS for the years ended June 30, 2014, 2013, and 2012 were approximately \$22,000, \$15,000, and \$12,000, respectively, and equaled the base required retirement contribution rate, excluding retiree insurance surcharge and incidental death benefit program contributions, of 10.45% for 2014, 10.45% for 2013, and 9.385% for 2012. Also, the Bank paid employer incidental death benefit program contributions of approximately \$200, \$200, and \$200, at the rate of .15% of compensation for the fiscal years ended June 30, 2014, 2013, and 2012, respectively.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE G – RETIREMENT PLAN (CONTINUED)

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (“ORP”), a defined contribution retirement plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the State ORP plan other than for the employer’s payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.92% from the employer in fiscal year 2014. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant’s ORP account and the remaining 5.45% retirement contribution and .15% incidental death benefit program contribution amounts are remitted to SCRS. The Bank did not make any contributions to ORP for the years ended June 30, 2014 and 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.

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rate.

Pending Implementation of GASB Statement on Pensions

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB #68”), which was issued by the GASB in June 2012, is required to be implemented by the Bank for the fiscal year ended June 30, 2015. The primary objective of GASB #68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that are provided by other entities. In addition, state and local governments who participate in a cost-sharing multiple employer plan will now be required to recognize a liability for its proportionate share of the net pension liability of that plan. It is GASB’s intention that GASB #68 will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the Bank’s financial obligations to current and former employees for past services rendered.

In particular, GASB #68 will require the Bank to recognize a net pension liability (and related deferred outflows and inflows of resources) for its participation in the SCRS on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures.

The Bank has been in communications with the PEBA on the effect of implementing GASB #68. Based on recent information provided by the PEBA, it is anticipated that the Bank’s proportionate share of the net pension liability associated with the SCRS will decrease the Bank’s unrestricted net position for the year ended June 30, 2015 by approximately \$377,000.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE H – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides postemployment 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 on 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 1-11-710 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 State General Assembly for active employees to the IB and participating retirees to the PEBA, except the portion funded through the pension surcharge and provided from other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the SCRHITF are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.92% of annual covered payroll for 2014 and 4.55% of annual covered payroll for 2013. The IB sets the employer contribution rate based on a pay-as-you-go basis. 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 years ended June 30, 2014 and 2013.

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.

A copy of the complete financial statements for the benefit plans and the trust funds may be obtained from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE I – COMMITMENTS

The Bank entered into various agreements for conservation projects for which \$13,419,154 is committed at June 30, 2014. Commitments will be funded through the use of the committed fund balance as of June 30, 2014 as well as budgeted revenues for the year ended June 30, 2015. Funds were committed for the following projects:

Chau-Ram Tract	\$ 250,000
Chick Springs Natural Pres	250,000
The Jeremiah Project	50,000
Glover Tract	411,800
Rocky River Nature Park	149,070
Williamson Waterfowl Tr	63,000
Johnathan Graham Tr	758,010
Kel-Sam Farms(C.Black Tr)	108,228
Wesleyan Camp Tr	160,000
Ramey Tract	141,156
Craig's Pond (Chem Nuclear)	250,000
Rogers Tract	25,000
Murray Tr. Phase III	233,830
Boggy Branch Farms Tr	274,200
Van Watts Tract	386,000
Dinkins Mill Tract	621,300
Featherhorn Farms Tr	1,206,000
Jason Ross Tract	398,000
Hickory Top (Charlie Rountree Tract)	223,000
Millwood Farms (Culler Tr)	184,450
Knowlton Farms	161,460
Buck Branch Tract	59,000
Cordova Road Tract	28,800
Rhodes and Ip/Milbury	337,400
Rocky Point Landing Tract	1,150,000
Hinson Farm Project	550,000
Santee River Tract	2,175,500
Bunched Arrowhead Preserve Tr	365,000
Michael Walden Tract	53,700
Holcim Cement Tract	71,250
Ft. Fairlawn Tract (Corner Investors, LLC	500,000
RLF Princess Pond LLC Tr/ Deer and Duck LLC Tract	500,000
Pinewood Farms	182,000
Summerton Drugs Tr	35,000
Ness Bay Tr	120,000
DDK Management LLC	746,200
Little Junkyard Bay	240,800
Total Commitments	<u>\$ 13,419,154</u>

SOUTH CAROLINA CONSERVATION BANK

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE

SCHEDULE OF EXPENDITURES - BUDGETS AND ACTUAL (NON-GAAP BASIS)

YEAR ENDED JUNE 30, 2014

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
EXPENDITURES				
Conservation Trust grants	9,240,289	11,025,289	10,534,064	(491,225)
Personal services	148,093	157,399	157,399	-
Employer contributions	37,023	47,023	38,853	(8,170)
Other operating	434,828	215,522	21,845	(193,677)
TOTAL EXPENDITURES	9,860,233	11,445,233	10,752,161	(693,072)
RECONCILIATION TO GAAP BASIS				
Increase in accrued payroll			100	
TOTAL EXPENDITURES PER STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE			10,752,261	

Note: The notes to the budgetary comparison schedule are an integral part of this schedule.

**SOUTH CAROLINA CONSERVATION BANK
COLUMBIA, SOUTH CAROLINA**

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2014

A. BUDGETARY FUNDS

South Carolina's Annual Appropriation 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 general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

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 presented as *Other Budgeted Funds* are obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds column. The Bank did not receive General Fund appropriations in fiscal year 2013-14. Revenue is not presented in the budgetary schedule because it is budgeted at the State-wide level.

B. 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 used, while the accrual basis is used for other expenditures.

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

- Departments and agencies shall charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 12.
- Certain revenues collected in advance are recorded as liabilities (unearned revenues) rather than as revenues.
- 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.
- 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.
- All other revenues are recorded only when the State receives the related cash.

C. 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 removal of unbudgeted accounts. Budgetary accounting principles differ significantly from GAAP accounting principles. The differences between the budgetary comparison schedule as compared to the Statement of Revenues, Expenditures, and Changes in Fund Balance are related strictly to the modified accrual basis of accounting which include accounts receivable and accounts payable as revenues and expenditures in the current year while the budgetary basis would include those amounts in the year that payments were actually received or paid.

**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***

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the 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 governmental activities and major fund of South Carolina Conservation Bank (the "Bank") as of and for the year ended June 30, 2014, 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 18, 2014.

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 opinions 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 a 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 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.

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 from 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*.

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.



Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 18, 2014