

SOUTH CAROLINA CONSERVATION BANK

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

August 23, 2016

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, 2016, 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 blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA
State Auditor

GLKIII/sag

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

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YEAR ENDED JUNE 30, 2016

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Greene Finney & Horton

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mr. George L. Kennedy, III, CPA
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, 2016, 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, 2016, 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 B, the financial statements of 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, 2016 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule and pension schedules, 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 August 23, 2016 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
August 23, 2016

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

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, 2016. 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 and signed by the Governor in 2002. The Conservation Bank was established for the purpose of making grants to public and private entities to acquire interests in real properties worthy of conservation, to provide for the governance of the Bank, 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 4% or \$252,340 to \$5,808,735 as a result of this year's operations; however, at the fund level, the Bank's fund balance of \$6,124,981 is fully committed for Conservation projects.
- Total revenues reported in the Statement of Activities were \$15,218,444 for the year ended June 30, 2016, an increase of \$1,892,810 from the prior fiscal year.
- The total expenses reported in the Statement of Activities were \$14,966,104 for the year ended June 30, 2016, an increase of \$1,923,905 from the prior fiscal year.
- Cash and cash equivalents increased \$1,495,813 during the fiscal year to \$6,138,818 at June 30, 2016.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 activities 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Condensed Statements of Net Position

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 6,138,818	\$ 4,643,005
Accounts receivable	-	1,247,067
Total Assets	<u>6,138,818</u>	<u>5,890,072</u>
Deferred Outflows of Resources		
Deferred pension charges	<u>24,146</u>	<u>25,357</u>
Liabilities		
Current liabilities	45,381	54,556
Net pension liability	305,534	280,804
Total Liabilities	<u>350,915</u>	<u>335,360</u>
Deferred Inflows of Resources		
Deferred pension credits	<u>3,314</u>	<u>23,674</u>
Net Position		
Unrestricted	5,808,735	5,556,395
Total Net Position	<u>\$ 5,808,735</u>	<u>\$ 5,556,395</u>

The Bank's total assets increased by \$248,746 for the year primarily as a result of revenue earned during the year of \$15,218,444 exceeding expenditures of \$14,966,104.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

	Governmental Activities	
	2016	2015
Revenues:		
Program Revenues:		
Operating grants and contributions	\$ 5,909	\$ 10,919
General Revenues:		
Documentary stamp taxes	15,108,635	13,236,618
Interest	103,900	76,593
Miscellaneous	-	1,504
Total Revenues	<u>15,218,444</u>	<u>13,325,634</u>
Expenses:		
General Government	14,966,104	13,042,199
Total Expenses	<u>14,966,104</u>	<u>13,042,199</u>
Change in Net Position	252,340	283,435
Net Position - Beginning of Year	<u>5,556,395</u>	<u>5,272,960</u>
Net Position - End of Year	<u>\$ 5,808,735</u>	<u>\$ 5,556,395</u>

Revenues exceeded expenses by \$252,340 for fiscal 2016 governmental activities. Total revenues increased from the prior year by approximately \$1,892,810 (14%) to \$15,218,444. The increase can be attributed to a \$1,872,017 (14%) 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 \$1,923,905 (15%) over the prior year to \$14,966,104 as a result of a \$1,779,684 (14%) 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 two differences between the fund balance of this fund and the net position of the Bank are (1) the compensated absences accrual which totaled \$31,544 for the current year, an increase of \$5,274 compared to the prior year and (2) the Bank's proportionate share of the net pension liability, deferred outflows of resources and deferred inflows of resources related to its participation in the State pension plan, an increase of \$5,581 compared to the prior year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2016

BUDGETARY HIGHLIGHTS

Final budgeted expenditures were consistent with actual expenditures for the fiscal year ended June 30, 2016. There were no differences between the original budget and the final amended budget.

ECONOMIC FACTORS

The Bank's budget for fiscal year 2017 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. The Bank is up for legislative renewal effective July 1, 2018 and could be repealed unless reenacted or otherwise extended by the General Assembly. Repeal does not affect any rights, obligations, liabilities, or debt due from the Bank as the State Fiscal Accountability Authority is the bank's successor.

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
COLUMBIA, SOUTH CAROLINA**

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 6,138,818
TOTAL ASSETS	6,138,818
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension charges	24,146
TOTAL DEFERRED OUTFLOWS OF RESOURCES	24,146
LIABILITIES	
Accrued payroll, related taxes, and employee benefits	13,837
Long-term obligations:	
Net pension liability	305,534
Due within one year:	
Compensated absences	31,544
TOTAL LIABILITIES	350,915
DEFERRED INFLOWS OF RESOURCES	
Deferred pension credits	3,314
TOTAL DEFERRED INFLOWS OF RESOURCES	3,314
NET POSITION	
Unrestricted	5,808,735
TOTAL NET POSITION	\$ 5,808,735

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

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>REVENUE AND CHANGES IN NET POSITION</u>
			<u>Capital</u>	<u>Governmental Activities</u>
Governmental activities:				
General government	\$ 14,966,104	-	5,909	-
Total Governmental Activities	\$ 14,966,104	-	5,909	-
General revenues:				
Documentary stamp taxes				15,108,635
Interest				103,900
Total general revenues				15,212,535
CHANGE IN NET POSITION				252,340
NET POSITION, Beginning of Year				5,556,395
NET POSITION, End of Year				\$ 5,808,735

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**

BALANCE SHEET

JUNE 30, 2016

	SPECIAL REVENUE
ASSETS	
Cash and cash equivalents	\$ 6,138,818
TOTAL ASSETS	6,138,818
LIABILITIES	
Accrued payroll, related taxes, and employee benefits	13,837
TOTAL LIABILITIES	13,837
FUND BALANCE	
Committed:	
Conservation projects	6,124,981
TOTAL FUND BALANCE	6,124,981
TOTAL LIABILITIES AND FUND BALANCE	\$ 6,138,818

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**

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

JUNE 30, 2016

TOTAL FUND BALANCE - GOVERNMENTAL FUND	\$ 6,124,981
Amounts reported for the governmental activities in the Statement of Net Position are different because of the following:	
The Bank's proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to its participation in the State pension plan are not recorded in the governmental funds but are recorded on the Statement of Net Position.	(284,702)
Long-term obligations are not due or payable in the current period and, therefore, are not reported in the governmental funds. This amount represents the compensated absences liability as of June 30, 2015.	(31,544)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ 5,808,735

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**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2016

	SPECIAL REVENUE
REVENUES	
Documentary stamp taxes	\$ 15,108,635
Interest	103,900
Other	5,909
TOTAL REVENUES	15,218,444
EXPENDITURES	
Current:	
General Government:	
Grants paid	14,599,653
Personal services	205,243
Employer contributions	59,718
Other operating	90,635
TOTAL EXPENDITURES	14,955,249
NET CHANGE IN FUND BALANCE	263,195
FUND BALANCE, Beginning of Year	5,861,786
FUND BALANCE, End of Year	\$ 6,124,981

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**

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

YEAR ENDED JUNE 30, 2016

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$ 263,195
Amounts reported for the governmental activities in the Statement of Activities are different because of the following:	
Changes in the Bank's proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources for the current year are not reported in the governmental fund but are reported in the Statement of Activities.	(5,581)
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 fund.	(5,274)
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 252,340

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, 2016

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 and signed by the Governor in 2002. The Bank is an independent state agency and was established for the purpose of making grants to public and private entities to help fund the acquisition of real properties worthy of conservation, to provide for the governance of the Bank, 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 prohibited by law from owning any interests in land, but the Bank uses the revenues allocated to the Trust Fund to provide grant funding for qualified entities for the purpose of acquiring land in the interest of conservation and protection of the landscape. Qualified entities include State and municipal entities as well as not-for-profit charitable corporations and trusts whose principal activity is the acquisition and management of interests in land for conservation or historic preservation purposes.

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. Based on this criteria, the Bank does not have any component units.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

2. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, 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.

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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

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.

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.

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Position and the Balance Sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Bank currently has one type of deferred outflows of resources: The Bank reports *deferred pension charges* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System. These *deferred pension charges* are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

Deferred Outflows/Inflows of Resources (Continued): In addition to liabilities, the Statement of Net Position and the Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Bank currently has one type of deferred inflows of resources: The Bank reports *deferred pension credits* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System. These *deferred pension credits* are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

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.

Pensions: In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note G and the required supplementary information immediately following the notes to the financial statements for more information), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The Bank recognizes a net pension liability for the qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the Bank's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the Bank's fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Other Postemployment Benefits: Other postemployment benefits ("OPEB") cost for retiree healthcare and similar, non-pension retiree benefits, is required to be measured and disclosed using the accrual basis of accounting (see Note H for more information). Annual OPEB cost is equal to the annual required contributions to the OPEB Plan, calculated in accordance with GAAP.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources and disclosure of these balances as of the date of the financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

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, 2016, 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>.

NOTE D – COMPENSATED ABSENCES

The change in compensated absences for the year ended June 30, 2016 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	\$ 26,270	18,278	13,004	31,544	\$ 31,544

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 \$15,108,635 of documentary stamp tax revenues in the current year from the South Carolina Department of Revenue.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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).

The 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.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE G – RETIREMENT PLAN

The Bank participates in the State of South Carolina’s retirement plans, which are administered by the South Carolina Public Employee Benefit Authority (“PEBA”), which was created on July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors (“PEBA Board”), appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (“Systems”) and serves as a co-trustee of the Systems in conducting that review.

The PEBA issues a Comprehensive Annual Financial Report (“CAFR”) containing financial statements and required supplementary information for the System’s Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits’ link on the PEBA’s website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. The PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

The South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

Plan Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class Three member.

Plan Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each system is presented below.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE G – RETIREMENT PLAN (CONTINUED)

Plan Benefits (Continued)

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member’s age and the member’s creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the Budget and Control Board for approval an increase in the SCRS employer and employee contribution rates, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for the SCRS. An increase in the contribution rates adopted by the PEBA Board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the PEBA Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the PEBA Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

As noted earlier, both employees and the Bank are required to contribute to the Plan at rates established and as amended by the PEBA. The Bank’s contributions are actuarially determined but are communicated to and paid by the Bank as a percentage of the employees’ annual eligible compensation.

Required employer and employee contribution rates for the past three years are as follows:

	SCRS Rates		
	2014	2015	2016
Employer Contribution Rate: [^]			
Retirement	10.45%	10.75%	10.91%
Incidental Death Benefit	0.15%	0.15%	0.15%
Accidental Death Contributions	0.00%	0.00%	0.00%
	<u>10.60%</u>	<u>10.90%</u>	<u>11.06%</u>
Employee Contribution Rate	<u>7.50%</u>	<u>8.00%</u>	<u>8.16%</u>

[^] Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE G – RETIREMENT PLAN (CONTINUED)

Plan Contributions (Continued)

The required contributions and percentages of amounts contributed by the Bank to the Plan for the past three years were as follows:

Year Ended June 30,	SCRS Contributions	
	Required	% Contributed
2016	\$ 16,673	100%
2015	17,400	100%
2014	\$ 15,698	100%

Eligible payrolls of the Bank covered under the Plan for the past three years were as follows:

Year Ended June 30,	SCRS Payroll	
2016	\$	150,753
2015		159,633
2014	\$	148,094

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The June 30, 2015 total pension liability, net pension liability, and sensitivity information were determined by the PEBA's consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on the July 1, 2014 actuarial valuations as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015 using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for the SCRS.

	SCRS
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return*	7.50%
Projected Salary Increases*	3.5% to 12.5% (varies by service)
Benefit Adjustments	Lesser of 1% or \$500 annually

* Includes inflation at 2.75%.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE G – RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions and Methods (Continued)

The post-retiree mortality assumption is dependent upon the member’s job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014 valuations for the SCRS are as follows:

Former Job Class	Males	Females
Educators	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014 actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission (“RSIC”) in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted by the RSIC for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE G – RETIREMENT PLAN (CONTINUED)

Long-term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	1.90%	0.04%
Short Duration	3.0%	2.00%	0.06%
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	2.70%	0.19%
Mixed Credit	6.0%	3.80%	0.23%
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	2.80%	0.08%
Emerging Markets Debt	6.0%	5.10%	0.31%
Global Public Equity	31.0%	7.10%	2.20%
Global Tactical Asset Allocation	10.0%	4.90%	0.49%
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4.30%	0.34%
Private Debt	7.0%	9.90%	0.69%
Private Equity	9.0%	9.90%	0.89%
Real Estate (Broad Market)	5.0%	6.00%	0.30%
Commodities	3.0%	5.90%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

The net pension liability (“NPL”) is calculated separately for each system and represents that particular system’s total pension liability determined in accordance with GASB No. 67 less that System’s fiduciary net position. NPL totals, as of June 30, 2015 measurement date, for the SCRS are presented in the following table:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 44,097,310,230	25,131,828,101	\$ 18,965,482,129	57.0%
PORS	\$ 6,151,321,222	3,971,824,838	\$ 2,179,496,384	64.6%

The total pension liability is calculated by the Systems’ actuary, and each plan’s fiduciary net position is reported in the Systems’ financial statements. The net pension liability is disclosed in accordance with the requirements of GASB No. 67 in the Systems’ notes to the financial statements and required supplementary information.

Liability calculations performed by the Systems’ actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans’ funding requirements.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE G – RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

At June 30, 2016, the Bank reported a liability of approximately \$305,500 for its proportionate share of the net pension liability for the SCRS. The net pension liability were measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined based on the most recent actuarial valuation report as of July 1, 2014 that was projected forward to the measurement date. The Bank's proportion of the net pension liability was based on a projection of the Bank's long-term share of contributions to the Plan relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2015 measurement date, the Bank's SCRS proportion was .001611 percent, which was a decrease of 0.0011 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Bank recognized pension expense of approximately \$21,300 for the SCRS. At June 30, 2016, the Bank reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences Between Expected and Actual Experience	\$ 5,428	\$ 546
Changes in Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,045	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	-	2,768
Bank's Contributions Subsequent to the Measurement Date	16,673	-
Total SCRS	\$ 24,146	\$ 3,314

Approximately \$16,700 was reported as deferred outflows of resources related to the Bank's contributions subsequent to the measurement date to the SCRS will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS will increase (decrease) pension expense as follows:

Year Ended June 30,	SCRS
2017	\$ 433
2018	433
2019	(1,431)
2020	4,724
Total	\$ 4,159

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE G – RETIREMENT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the sensitivity of the Bank’s proportionate share of the net pension liability of the Plans to changes in the discount rate, calculated using the discount rate of 7.50 percent, as well as what it would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate:

System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
The Bank's proportionate share of the net pension liability of the SCRS	\$ 385,191	305,534	\$ 238,771

Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plans administered by the PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS. The CAFR is publicly available through the Retirement Benefits’ link on the PEBA’s website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

NOTE H – OTHER POSTEMPLOYMENT BENEFITS

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 Executive Budget Office, 5.33%, 5.00%, and 4.92% of annual covered payroll for the years ended June 30, 2016, 2015 and 2014, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE H – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The actual required employer contribution surcharge amounts were approximately \$10,700, \$8,000, and \$7,700, for the years ended June 30, 2016, 2015, and 2014, respectively. The actual contribution rates and amounts were 100% of the required employer contribution surcharge percentages and amounts for the OPEB Plan for all years presented. 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, 2015.

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 the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, SC 29211-1960.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE I – COMMITMENTS

The Bank entered into various agreements for conservation projects for which \$15,112,726 is committed at June 30, 2016. Commitments will be funded through the use of the committed fund balance as of June 30, 2016 as well as revenues for the year ended June 30, 2017. Funds were committed for the following projects:

Greenfield Plantation Corner	\$ 75,000
Millwood Farms Tr	227,375
M.J. Holstein Farm Tr	76,300
Blackbottom Farm Tr	392,350
Crosby Farm Tr	69,550
Johnsonville Tr	95,000
Knollwood Inc./Longlands Pit Tr	745,750
Pineland Farm	523,950
Royal Tr	310,450
Silver Bluff Audubon Center and Sanctuary	820,500
South Fenwick Island Tr	500,000
Tall Pines Tr	1,500,000
Chestnut Ridge Ext	318,750
Comalander Tr	98,925
Combahatchie Family Tr	165,300
Crescent Tr	1,020,750
Geddings Tr	69,175
Mike & Tina Comalander Tr	66,783
Myrtle Grove Plantation - Marvin Tracts B & C	134,186
Perry Dam Tract	86,700
Precision Property Dev Tr	452,219
Grassy Knob Tr	500,000
Top of SC Tr	550,000
Cragmoor Farms Tr	500,000
Harrell Farm Trust Tr	88,500
Pecan Alley Farms Tr	44,795
Ten Oaks Timberlands Tr	31,800
Gold Branch Tr	600,000
Grey Logs Property Tr	250,000
Oakland Club	1,193,910
Santee Bottomland Preserve	507,000
Bailey Mill Tr	493,500
Cope Tr	141,050
Ingleside Tr	281,520
Tom's Branch Tr	155,250
Paris Mountain Exp Tr	160,000
Rocky Shoal Spider Lily Preserve	100,000
Pettigrew Tr	300,000
Hopewell Church	152,930
Seven Oaks Tr	525,000
Cantey Bay Tr	470,458
Keithfield Tr	318,000
Total Commitments	<u><u>\$ 15,112,726</u></u>

Required Supplementary Information

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

REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE

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

YEAR ENDED JUNE 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
EXPENDITURES				
Conservation Trust grants	\$ 14,492,556	14,599,653	14,599,653	\$ -
Personal services	221,055	217,545	217,112	(433)
Employer contributions	62,861	62,861	62,298	(563)
Other operating	223,528	119,941	90,635	(29,306)
TOTAL EXPENDITURES	\$ 15,000,000	15,000,000	14,969,698	\$ (30,302)

RECONCILIATION TO GAAP BASIS

Decrease in accrued payroll (14,449)

**TOTAL EXPENDITURES PER STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

14,955,249

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, 2016

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 Appropriation 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 Appropriation Act from the Total Funds column. The Bank did not receive General Fund appropriations in fiscal year 2015-16. 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.

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

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE SOUTH CAROLINA CONSERVATION BANK'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY - SOUTH CAROLINA RETIREMENT SYSTEM**

LAST THREE FISCAL YEARS

	Year Ended June 30,		
	2016	2015	2014
South Carolina Conservation Bank's Proportion of the Net Pension Liability	0.00161%	0.00163%	0.00163%
South Carolina Conservation Bank's Proportionate Share of the Net Pension Liability	\$ 305,534	280,804	\$ 292,543
South Carolina Conservation Bank's Covered-Employee Payroll	\$ 159,633	148,094	\$ 143,217
South Carolina Conservation Bank's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	191.40%	189.61%	204.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	56.992%	59.919%	56.388%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year. Only three years of data were available; thus, only three years were presented.

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

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE SOUTH CAROLINA CONSERVATION BANK'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM**

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Year Ended June 30,</u>		<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
					<u>2012</u>	<u>2011</u>				
Contractually Required Contribution	\$ 16,673	17,400	15,698	15,181	12,380	12,188	12,188	12,418	7,161	\$ 5,602
Contributions in Relation to the Contractually Required Contributions	16,673	17,400	15,698	15,181	12,380	12,188	12,188	12,418	7,161	5,602
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
Bank's Covered-Employee Payroll	\$150,753	159,633	148,094	143,217	129,837	129,798	129,798	132,247	77,752	\$ 68,317
Contributions as a Percentage of Covered-Employee Payroll	11.06%	10.90%	10.60%	10.60%	9.54%	9.39%	9.39%	9.39%	9.21%	8.20%



Greene Finney & Horton

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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. George L. Kennedy, III CPA
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, 2016, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements, and have issued our report thereon dated August 23, 2016.

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

Greene, Finney & Horton, LLP
Mauldin, South Carolina
August 23, 2016