

SOUTH CAROLINA CONSERVATION BANK

**AUDITED FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION**

YEAR ENDED JUNE 30, 2008

State of South Carolina



Office of the State Auditor

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

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DEPUTY STATE AUDITOR

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September 3, 2008

The Honorable Mark Sanford, 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, 2008, was issued by DeLoach & Williamson, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

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

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

RHGjr/cwc

SOUTH CAROLINA CONSERVATION BANK

AUDITED FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2008

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DELOACH & WILLIAMSON, L.L.P.

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying basic financial statements of the South Carolina Conservation Bank (the "Bank") as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in *Note 1*, the accompanying financial statements of the South Carolina Conservation Bank reporting entity are intended to present the financial position and the results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions that comprise the South Carolina Conservation Bank reporting entity. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2008 and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include any other agencies, divisions or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Conservation Bank as of June 30, 2008 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The Schedule of Expenditures – Budget and Actual is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2008, on our consideration of the Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the result of our audit.

Rebecca E. Williamson, C.C.P.

August 26, 2008

South Carolina Conservation Bank

Management's Discussion and Analysis

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

The Bank was totally funded in fiscal years 2007 and 2008. The Bank's funding is derived from documentary stamp taxes whereby the Bank receives 25 cents of every \$1.30 of documentary stamp taxes collected by the State.

The Bank entered into an agreement with the South Carolina Department of Natural Resources (SCDNR) to provide the Bank with office space and a local telephone. What follows is a table depicting several financial areas and components for the past two years:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Total assets	\$ 2,764,082	\$ 10,235,703
Total liabilities	\$ 85,749	\$ 20,841
Total net assets	\$ 2,678,333	\$ 10,214,862
General revenue	\$ 20,175,156	\$ 19,708,527
Operating grants and contributions	\$ 21,635	\$ 14,780
Program expenses	\$ 27,733,320	\$ 28,327,401
Change in net assets	\$ (7,536,529)	\$ (8,604,094)

Total assets and total net assets decreased significantly due to the increased amount of grants and successful closings of protected properties during the fiscal year. The majority of these funds have been committed to various projects subject to receipt to revenues as discussed in Note 7 to the financial statements.

General revenue decreased from documentary stamps reflecting the general downward trend of the real estate market in 2007-2008. Interest earned on unspent funds was \$208,952 and other donations were \$21,635.

Program expenses increased due to the Bank making significant increases in conservation grants of \$25,908,011 during the year. Included in this amount are grants to State agencies in the amount of \$1,625,000.

The Bank does not own any capital assets at June 30, 2008 nor does it have any long-term debt.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all of the Bank's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Bank is improving or deteriorating. A condensed statement of net assets for June 30, 2008 and 2007 is as follows:

	NET ASSETS	
	2008	2007
Assets		
Cash and cash equivalents	\$ 2,746,806	\$ 10,145,681
Receivables	17,276	90,022
Total assets	2,764,082	10,235,703
Liabilities		
Accrued expenses	85,749	20,841
Total liabilities	85,749	20,841
Net Assets	\$ 2,678,333	\$ 10,214,862

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. A condensed statement of activities for the years ended June 30, 2008 and 2007 is as follows:

STATEMENT OF ACTIVITIES		
	2008	2007
General Revenue/Contributions		
Documentary stamp taxes	\$ 14,966,204	\$ 19,106,698
Appropriations	5,000,000	-
Interest income/contributions	230,587	616,609
Total general revenue	20,196,791	19,723,307
Expenses		
Conservation Trust grants	27,533,011	28,224,868
General government	200,309	102,533
Total expenses	27,733,320	28,327,401
Change in Net Assets	\$ (7,536,529)	\$ (8,604,094)

The government-wide financial statements can be found on pages 7-8 of this report.

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

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

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

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

The basic governmental fund financial statements can be found on pages 9-10 of this report.

Government-Wide Financial Analysis:

At June 30, 2008, total assets were \$2,764,082. General government expenses, principally salaries and benefits and grants totaled \$27,732,099. Documentary stamp tax revenue totaled \$14,966,204 and the Bank's interest earnings were \$208,952 for the year. The total change in fund balance was (\$7,535,308) for the year.

The Bank has made commitments to fund conservation projects totaling \$10,738,263 at June 30, 2008.

Governmental Fund Financial Analysis:

As noted above, the Bank operates only one governmental fund, its Special Revenue Fund. All of the Bank's activities are accounted for in this fund. The only difference in the fund balance of this fund and the net assets of the Bank is the amount of accrued compensated absences of \$14,987.

Request for Information

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

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

SOUTH CAROLINA CONSERVATION BANK

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,746,806
Interest receivable	15,824
Accounts receivable - other	1,452
Total assets	<u>2,764,082</u>
Liabilities	
Current liabilities:	
Accounts payable	62,790
Accrued payroll and benefits	7,972
Accrued compensated absences	14,987
Total liabilities	<u>85,749</u>
Net Assets	
Restricted	<u>2,678,333</u>
Total net assets	<u><u>\$ 2,678,333</u></u>

See accompanying notes.

SOUTH CAROLINA CONSERVATION BANK

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Functions/Programs:			
General government	\$ 27,733,320	\$ 21,635	\$ (27,711,685)
Total primary government	<u>\$ 27,733,320</u>	<u>\$ 21,635</u>	<u>(27,711,685)</u>
General revenue:			
Documentary stamp taxes			14,966,204
State appropriations			5,000,000
Interest income			208,952
Total general revenue			<u>20,175,156</u>
Change in net assets			(7,536,529)
Net assets - beginning			<u>10,214,862</u>
Net assets-ending			<u>\$ 2,678,333</u>

See accompanying notes.

SOUTH CAROLINA CONSERVATION BANK

BALANCE SHEET

JUNE 30, 2008

	Special Revenue
Assets	
Cash and cash equivalents	\$ 2,746,806
Interest receivable	15,824
Accounts receivable - other	1,452
Total assets	<u>\$ 2,764,082</u>
Liabilities and Fund Balance	
Liabilities:	
Accounts payable	\$ 62,790
Accrued payroll and benefits	7,972
Total liabilities	<u>70,762</u>
Fund balance:	
Reserved	<u>2,693,320</u>
Total fund balance	<u>2,693,320</u>
Total liabilities and fund balance	<u>\$ 2,764,082</u>
Reconciliation to the statement of net assets:	
Total fund balance	\$ 2,693,320
Amount reported for governmental activities in the statement of net assets are different because:	
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:	
Accrued compensated absences	<u>(14,987)</u>
Net assets of governmental activities	<u>\$ 2,678,333</u>

See accompanying notes.

SOUTH CAROLINA CONSERVATION BANK

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2008

	Special Revenue
<hr/>	
Revenue	
Documentary stamp taxes	\$ 14,966,204
State appropriations	5,000,000
Interest	208,952
Other income	21,635
Total revenue	<hr/> 20,196,791 <hr/>
Expenditures	
Grants paid	25,908,011
Grants paid to other State agencies	1,625,000
Personal services	88,251
Employer contributions	16,344
Other operating	94,493
Total expenditures	<hr/> 27,732,099 <hr/>
Excess of expenditures over revenue	(7,535,308)
Fund balance - beginning of year	<hr/> 10,228,628 <hr/>
Fund balance - end of year	<hr/> <u>\$ 2,693,320</u> <hr/>
Reconciliation to the statement of activities:	
Net change in fund balance - total government funds	\$ (7,535,308)
Some items reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in government funds. These activities consist of:	
Increase in compensated absences	<hr/> (1,221) <hr/>
Change in net assets of government activities	<hr/> <u>\$ (7,536,529)</u> <hr/>

See accompanying notes.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

1. Summary of Significant Accounting Policies

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

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. The Conservation Bank is part of the primary government of the State of South Carolina, and its funds are reported in the State’s Comprehensive Annual Financial Report. Generally, all state agencies are included in the State’s reporting entity. These entities are financially and fiscally dependent on the State.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the Conservation Bank (a primary entity).

A primary entity is financially accountable if its officials or appointees appoint a voting majority of an organization’s governing body including situations in which the voting majority consists of the primary entity’s officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit’s board are considered appointments by the primary entity *and* (1) it is able to impose its will on that organization *or* (2) there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all of the following powers:

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

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

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

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

Government-wide and Fund Financial Statements

The financial statement presentation for the Conservation Bank has met the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government* and No. 37, *Management's Discussion and Analysis of State and Local Governments: Omnibus*.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary entity and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 government considers revenues to be available if they are collected within 30 days 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Conservation Bank uses only one fund category, governmental, within which it maintained a special revenue fund. Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of monies. Assets are assigned to the various governmental funds according to the purposes for which they may or must be used and current liabilities are assigned to the fund from which they are to be paid. The difference between the assets and the liabilities is the fund balance.

The government reports the following major governmental fund:

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

Budgetary Controls

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

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

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

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

Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having a maturity of three months or less at the time of purchase.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency’s work week are entitled to accrue and carry forward at calendar year-end up to 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum amount, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The Conservation Bank calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded. Changes in compensated absences are shown in *Note 5*.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

Net Assets/Fund Balance

Net assets are classified and presented in three components in the government-wide financial statements. These three components are (1) invested in capital assets, net of related debt, (2) restricted and (3) unrestricted. At June 30, 2008, all of the Bank's net assets have been classified as restricted, which is defined as follows:

Restricted – Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Estimates

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

2. Deposits

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

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

Financial Statements		Footnotes	
Governmental fund:		Deposits held by	
Cash and cash equivalents	\$ 2,746,806	State Treasurer	\$ 2,746,806

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits (Continued)

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

3. Pension Plan

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

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job-related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

3. Pension Plan (Continued)

A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the South Carolina Retirement Systems is issued and publicly available by writing the South Carolina Retirement Division, the Plan Administrator, P.O. Box 11960, Columbia, South Carolina 29211-1960. The South Carolina Retirement System is included in the Comprehensive Annual Financial Report of the State of South Carolina.

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

The Conservation Bank total covered payroll for the year ended June 30, 2008, was \$79,043. Under Section 9-1-480 of the Code, the Conservation Bank's liability under the plan is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board.

Since July 1, 1988, employees participating in the SCRS have been required to contribute to the SCRS based on a percentage of all compensation. Beginning July 1, 2006, the employee contribution increased from 6.25 percent to 6.50 percent. Effective July 1, 2007, the employer contribution rate became 12.48 percent, which included a 3.42 percent surcharge to fund retiree health and dental insurance coverage. The Bank's actual contributions to SCRS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$7,161, \$5,602, and \$4,899 and equaled the required contributions of 9.06 percent (excluding the surcharge) for 2008 and 8.05 percent for 2007 and 2006. Also, the Board paid employer group-life insurance contributions during the 2008, 2007, and 2006 fiscal years at the rate of .15 percent of compensation.

The System does not make separate measurements of assets and pension benefit obligations for individual employers. Accordingly, information regarding the excess, if any, applicable to the Conservation Bank of the actuarially computed value of vested benefits over the total of the applicable pension fund and any balance sheet accruals, less any pension prepayments or deferred charges, is not available. By State law, the Conservation Bank's liability under the retirement plan is limited to the amounts contributed during the year. Accordingly, the

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

3. Pension Plan (Continued)

Conservation Bank recognized no contingent liability for unfunded costs associated with participation in the plan.

Article X, Section 16 of the South Carolina Constitution requires that all state operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest twelve consecutive quarters of compensation).

4. Post-Employment and Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Bank are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

Effective April 2, 2008 state law created the South Carolina Retiree Health Insurance Trust and (SCRIP and the South Carolina Long Term Disability Insurance Trust Fund (SCLTDI) to provide a method of paying and accounting for retiree health insurance premiums and basic long term disability income benefit plan premiums in accordance with GASB Statement No. 43. The establishment of these trusts provided for the accounting for the State of South Carolina Retiree Health Care Plan (SCRHCP), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The establishing legislation allows the SC Budget and Control Board the authority to establish and amend benefit provisions of the SCRHCP.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

4. Post-Employment and Other Employee Benefits (Continued)

The SCRHCP issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to SC Budget & Control Board, Post Office Box 12444, Columbia, South Carolina 29211.

As a member of the SCRHCP, the Bank is required to make mandatory contributions of the 3.42 percent of covered payroll (referred to as the surcharge). Costs of the plan exceeding the mandatory contributions established by the governing board of the plan are funded through appropriations from the General Assembly of the State of South Carolina. The Bank receives funding for mandatory contributions through its state appropriations and other applicable funding sources. The Bank's surcharge for the fiscal year ended June 30, 2008 was \$2,703, which equaled the required contribution. These payments are remitted to the South Carolina Retirement System for distribution to the SCRHI and SCLTDI who has contracted with the Employee Insurance Programs for administration of the plan benefits.

By State law, the Bank has no liability for retirement benefits. Accordingly, the annual retired contribution of the employer is not included in the accompanying financial statements.

5. Changes In Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2008, were as follows:

	Beginning Balance July 1, 2007	Increases	Decreases	Ending Balance June 30, 2008	Due Within One Year
Accrued compensated absences:	\$ 13,766	\$ 14,987	\$ (13,766)	\$ 14,987	\$ 14,987
	<u>\$ 13,766</u>	<u>\$ 14,987</u>	<u>\$ (13,766)</u>	<u>\$ 14,987</u>	<u>\$ 14,987</u>

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Transactions With State Entities

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

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

The Conservation Bank recorded disbursements of \$1,625,000 to the South Carolina Department of Natural Resources for project awards as of the fiscal year ended June 30, 2008.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. Commitments

The Conservation Bank entered into various agreements for conservation projects of which \$10,738,263 is committed at June 30, 2008. The following provides a list of these projects:

Cain Tract	\$ 150,000
Chislom Plantation (Ackerman and Lesesne Tracts)	500,000
Chick Springs	250,000
Elliot Tract	462,000
Garrett, Richard M.	120,000
Graham, Harry and Victoria S.	54,000
Lakemont Colony	75,000
Langley Pond Park	648,800
Macdonald and Sons Farm, Inc.	169,000
McDowell Tract	375,000
Meggett Creek Park	30,000
Middleton Place/Edmondston-Alston Family Trust	1,000,000
Odom Tract	354,000
Paradise Shrimp Farms	100,000
Rose Hill Farm Phase I	750,000
City of Rock Hill Tract	48,000
Alexander Tract	140,000
Ashley River, Phase III	285,000
DePre House and Property	250,000
Rosemont Preservation Society	45,000
Salt Point Landing	400,000
Todd Farms	154,763
Toole Tract	250,000
Tumbling Shoals	300,000
Walters, Rainey	80,700
Cotton Hall/Mount Repose	442,000
Alston, Roland P. Tract	220,000
Belfest Plantation Phase I	2,000,000
Bird Point Farm	120,000

SOUTH CAROLINA CONSERVATION BANK

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. Commitments (Continued)

Blue Wall Connection (Blakely and McDiarmid Tract)	440,000
Boyd Pont Tract	300,000
Sutherland Property	225,000
	<u>\$ 10,738,263</u>

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

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH CAROLINA CONSERVATION BANK

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

YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Conservation Trust grants	\$ 21,116,272	\$ 27,542,598	\$ 27,542,598	\$ -
Personal services	70,000	84,626	84,626	-
Employer contributions	17,000	40,374	17,852	22,522
Other operating	46,728	142,402	85,986	56,416
Total expenditures	<u>\$ 21,250,000</u>	<u>\$ 27,810,000</u>	<u>\$ 27,731,062</u>	<u>\$ 78,938</u>

SOUTH CAROLINA CONSERVATION BANK

NOTES TO THE SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL
(NON-GAAP BASIS)

JUNE 30, 2008

Note 1. Budgetary Funds:

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

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

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

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

Note 2. Legal Level of Budgetary Control:

The State maintains budgetary control at the level of summary object category of expenditure within each program of each department or agency. The State's Appropriations Act for the 2007-2008 fiscal year has several thousand appropriated line items. These line items constitute the level of legal control over expenditures. The level of legal control for all agencies is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures," not included herein.

SOUTH CAROLINA CONSERVATION BANK

NOTES TO THE SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL (NON-GAAP BASIS)

(CONTINUED)

Note 3. Basis of Budgeting:

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

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

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

Note 4. Reconciliation of Budget to GAAP Reporting Differences:

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

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the South Carolina Conservation Bank (the "Bank") as of and for the year ended June 30, 2008, and have issued our report thereon dated August 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Bank's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Bank's financial statements that is more than inconsequential will not be prevented or detected by the Bank's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Bank's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Carolina Conservation Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Rebecca E. Williamson, C.C.P.

August 26, 2008