SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
PORK BOARD

BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

State of South Carolina

Office of the State Auditor

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

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September 11, 2014

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

This report on the audit of the financial statements of the South Carolina Department of Agriculture – Pork Board for the fiscal year ended June 30, 2014, was issued by Love Bailey & Associates, LLC, 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,

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

RHGjr/sag

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
PORK BOARD

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Revenue, Expenditures, and Changes in Fund Balance	4
NOTES TO FINANCIAL STATEMENTS	5 - 10
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*	11 - 12

Love Bailey & Associates, LLC

George N. Love, CPA
Gary Bailey, CPA MBA

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Department of Agriculture - Pork Board (the "Board") special revenue fund as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board'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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Carolina Department of Agriculture - Pork Board special revenue fund, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

As described in Note 1, the Financial Statements of the South Carolina Department of Agriculture - Pork Board special revenue fund are intended to present the financial position and results of operations of only that portion of the funds of the South Carolina Department of Agriculture attributable to the transactions of the Pork Board special revenue funds and do not include any other accounts or funds of the South Carolina Department of Agriculture or any other department or component unit of the State of South Carolina, and are not intended to present fairly the financial statements and results of operations of the South Carolina Department of Agriculture in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014, on our consideration of the Board'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 Board's internal control over financial reporting and compliance.

Love Bailey & Associates LLC

Love Bailey & Associates, LLC
Laurens, South Carolina
September 11, 2014

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
PORK BOARD
BALANCE SHEET
JUNE 30, 2014

ASSETS

Cash	$	153,773
Account receivables		17,298
Total assets	**$**	**171,071**

FUND BALANCE

FUND BALANCE

Spendable- Unassigned	$	171,071
Total fund balance	**$**	**171,071**

The accompanying notes are an integral part of these financial statements.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
PORK BOARD
STATEMENT OF REVENUE, EXPENITURES, AND CHANGES IN FUND BALANCE
For the year ended June 30, 2014

REVENUE	
Assessment proceeds- National Pork Board	$ 131,202
Net assessment revenue	131,202
EXPENDITURES	
Promotions	47,515
Education and research	4,964
Administration and operations	13,253
Total expenditures	65,732
Excess of revenues over (under) expenditures	65,470
Fund balance, July 1, 2013	105,601
Fund balance, June 30, 2014	**$ 171,071**

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

The South Carolina Pork Board (also referred to as the "South Carolina Department of Agriculture - Pork Board" and the "Pork Board" and the "Board") was established as a commodity board under Section 46-17- 190 of the South Carolina Code of Laws of 1962 and is included as part of the South Carolina Department of Agriculture. The Department of Agriculture is considered part of the State of South Carolina's primary government and is included in the State of South Carolina's Comprehensive Annual Financial Report as such. This is based on guidance provided by GASB Statement 14, *The Financial Reporting Entity.* The Board was established for promotion and research to strengthen the pork industry's position in the marketplace.

The South Carolina Pork Board, whose members are elected by the local producers, is the governing body of South Carolina Pork Board.

The South Carolina Department of Agriculture administers the South Carolina Pork Board. The Board operates as a special revenue fund of the Department of Agriculture. The accompanying financial statements present the financial position and results of operations solely of the South Carolina Pork Board special revenue fund and do not include any other funds of the State of South Carolina.

Basis of Presentation and Accounting

The financial statements were prepared using the fund accounting principles per the Government Accounting Standards Board *Codification of Governmental Accounting and Financial Reporting Standards.* The accounts of the Pork Board are a special revenue fund of the Department of Agriculture. Government resources are allocated to and accounted for in this individual fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled. All accounts of the Pork Board are reported in the special revenue funds of the South Carolina Department of Agriculture financial statements. Basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting also relates to the timing of the measurements made, regardless of the measurement focus applied.

The Pork Board is a special revenue fund. Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust. or major capital projects) that are legally restricted to expenditures for specific purposes.

All special revenue funds of governmental units are accounted for using the modified accrual basis of accounting. Their revenue is recognized when they become measurable and available as net current assets. All revenue except assessment proceeds from the National Pork Board are recorded when received in cash because they are generally not measurable until actually received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Expenditure recognition is limited to exclude amounts represented by noncurrent liabilities since they do not affect net current assets.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

Budgetary Controls

The following is a description of the budgetary process of the Pork Board:

Several months prior to the start of the fiscal year, the executive director of the Pork Board develops a budget proposal for revenue and expenditures. The proposal is developed through evaluation of historical financial data and on knowledge of future events. The proposal is presented to the Board for both discussion and review.

Capital Assets

Capital assets are recorded at cost if purchased. Capital assets contributed by other State agencies or funds are recorded at the original acquisition cost less accumulated depreciation from the purchase date. Assets donated by other parties are valued at fair market value at the date of gift. The capitalization dollar threshold limit for capital assets is $5,000 and software is $100,000. The Board had no capital asset purchases during the year, nor did it own any capital assets at June 30, 2014.

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 a maximum of 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 of 45 days, but are not entitled to any payment for unused sick leave. The Department calculates the compensated absences liability based on recorded balances of unused leave for which the Department expects to compensate employees through paid time off or cash payments. The Department of Agriculture - Pork Board had no liability for accrued compensated absences at June 30, 2014, because the Board had no employees at that time.

Fund Balances

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

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES, Continued

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

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

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

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

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

At June 30, 2014, all of the Board's fund balances have been classified as unassigned.

Use of 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 that affect the reported amounts of assets, liabilities, and revenue, and expenditures and affect disclosure of contingent asset and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

All deposits of the South Carolina Department of Agriculture - Pork Board are under the 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.

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 the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina

NOTE 3 – RELATED PARTY TRANSACTIONS

The Pork Board has certain transactions with the South Carolina Department of Agriculture and various other state agencies.

Services received at no cost from State agencies include processing certain accounting records and disbursement processing from the Comptroller General; check preparation, banking functions from the State Treasurer; and legal services from the Attorney General.

Other services received at no cost from the various divisions of the State Budget and Control Board includes insurance plans administration, procurement services, and other centralized functions.

The South Carolina Pork Board had financial transactions with various State agencies during the fiscal year. Certain payments were made to divisions of the State Budget and Control Board for office supplies, printing, telephone, interagency mail, and data processing services. The amounts of 2013 expenditures applicable to related party transactions are not readily available.

The Department of Agriculture provides to the Board at no cost, office space, clerical help, record keeping, disbursement processing, and other centralized functions. The amounts of 2014 expenditures applicable to these services are not readily determinable.

The Executive Director of the Pork Board is a marketing specialist with the Department of Agriculture and performs various other duties within the Department of Agriculture in addition to serving the Pork Board. All salaries and benefits of this employee are paid by the Department of Agriculture. The value of the services provided by this employee to the Pork Board by the Department of Agriculture is not readily determinable.

The National Pork Board as of November 1986 controls the activities of the South Carolina Pork Board. This was provided for in the Pork Promotion, Research, and Consumer Information Act of 1985 (7 U.S.C. 4801-4819) (Pork Act).

The Act provided that the National Pork Board would be responsible to establish and conduct research and studies with the respect to the sale, distribution, marketing and utilization of pork and pork products. The National Pork Board shall distributed funds as established in the Pork Act received from assessments attributable to animals produced in the State. The National Pork Board, who in turn sends a portion back to the South Carolina Pork Board, collects all assessments on pork sales in the State of South Carolina.

The Board uses a separate non-state controlled bank account for the South Carolina Pork Conference to deposit exhibit fees and other miscellaneous revenue of the annual pork conference, and other functions. Registration fees are deposited to the Board's account and the Board pays some of the expenditures for the conference as educational expenditures. The transactions included in the pork conference account are not recorded by the Board and are not included in these statements. The Board at its discretion provided certain services related to the annual Pork Conference at no charge. The value of these services is not readily determinable.

(Continued)

NOTE 3 – RELATED PARTY TRANSACTIONS, Continued

A summary of transactions for the Pork Conference Account for the year ended June 30, 2014 is as follows:

Deposits	$	3,072
Expenditures	$	2,088

Checkoff funds are those funds received under the Federal Marketing Order that must be spent in compliance with the order for pork research, promotion and education. Non-checkoff are those funds generated by other activities that are not regulated by the Federal Marketing Order. For this reason, these groups of funds are separately maintained and administered.

The administration of the non-checkoff account is not the responsibility of the South Carolina Pork Board. The group that administers the non-checkoff account is comprised of the Executive Committee of the South Carolina Pork Board and one pork producer that has no affiliation with the South Carolina Pork Board. The non-checkoff funds are generated by exhibits and the trade show portion of the annual Pork Conference. These funds are deposited into the non-checkoff account and expenditures related to this portion of the conference are paid from the non-checkoff account. The revenue and expenditures of this account are disclosed due to the related party transactions involved.

The South Carolina Pork Board is responsible for the education portion of the Pork Conference. The registration fees for the seminars are deposited into the state controlled bank account and the expenditures for this portion of the program are paid as an allowable expenditure from the checkoff funds.

The contribution made to the National Pork Producers Council is made as a voluntary contribution from non-checkoff funds to support the non-checkoff activities of the National Pork Producers Council. The Pork Conference account was not audited.

NOTE 4 – RISK MANAGEMENT

The South Carolina Department of Agriculture - Pork Board is exposed to various risks of loss and maintains State or commercial insurance coverage for certain risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the South Carolina Department of Agriculture - Pork Board. The South Carolina Department of Agriculture - Pork Board has not had any claims in the past three years. There were no significant reductions in insurance coverage from coverage in the prior year. The South Carolina Department of Agriculture pays insurance premiums to certain State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered premium losses sustained during the policy period in accord with the insurance policy and benefit program limits. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of covered employees for health and dental insurance benefits (Public Employee Benefit Authority- Insurance Benefits).

(Continued)

NOTE 4 – RISK MANAGEMENT, Continued

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

3. Claims of covered public employees for worker' compensation insurance benefits (State Accident Fund).

4. Claims of covered public employees for unemployment compensation insurance benefits (Department of Employment and Workforce).

The South Carolina Department of Agriculture and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss and pays claims incurred for covered losses related to the following Fund assets, activities, and/or events:

1. Personal property and equipment - Eighty percent of each loss is covered by the IRS. Losses are subject to a $1,000 deductible.

2. Data processing equipment - Coverage is up to $100,000 per loss with a $1,000 deductible.

3. Torts.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses. The IRF's rates are determined actuarially

The South Carolina Department of Agriculture purchases insurance coverage for employee fidelity bond insurance coverage arising from theft or misappropriations. The policy has a $1,000 deductible with a coverage limit of $50,000.

The South Carolina Department of Agriculture - Pork Board has not recorded any estimated losses or expenditures related to the deductible or policy limits because there is no evidence of asset impairment or other information to indicate a loss should be recorded.

All payments for insurance to the IRF and for fidelity coverage are made by the Department and the Pork Board does not reimburse any of those expenses.

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 11, 2014, which is the date that these financial statements were available to be issued.

Love Bailey & Associates, LLC

George N. Love, CPA
Gary Bailey, CPA MBA

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

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

We have audited, in accordance with 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 South Carolina Department of Agriculture- Pork Board ("the Board"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 11, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board'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 Board'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

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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*.

Specifically, in connection with our audit, nothing came to our attention that caused us to believe that the Board failed to comply with the terms, in so far as they relate to accounting matters, of section 1230.74 of the Pork Promotion, Research and Consumer Information Order: Final Rule related to the purpose of influencing governmental policy or action.

In connection with our audit, we read the Agriculture Marketing Service's (AMS) Investment Policy for Commodity Programs, dated February 7, 2011 and noted that there were no invested funds held by the Board.

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.

Love Bailey & Associates LLC

Love Bailey & Associates, LLC
Laurens, SC
September 11, 2014