

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
PORK BOARD**

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2012

State of South Carolina



Office of the State Auditor

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September 28, 2012

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, 2012, was issued by Rogers Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

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

RHGjr/sag

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
PORK BOARD**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheet of the South Carolina Department of Agriculture – Pork Board ("the Board") special revenue fund and the related statement of revenue, expenditures, and changes in fund balance as of and for the year ended June 30, 2012. These financial statements are the responsibility of the Board'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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also 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 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 fund 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.

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, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2012, 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 other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Rogers Laban, PA

September 11, 2012

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Going Beyond The Numbers

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
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**BALANCE SHEET
JUNE 30, 2012**

Assets

Cash	\$ 104,885
Accounts receivable	<u>5,368</u>
Total assets	<u><u>\$ 110,253</u></u>

Liabilities and Fund Balance

Liabilities:	
Accounts payable	<u>\$ 458</u>
Total liabilities	<u>458</u>
Fund balance:	
Spendable - Unassigned	<u>109,795</u>
Total fund balance	<u>109,795</u>
Total liabilities and fund balance	<u><u>\$ 110,253</u></u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
PORK BOARD**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2012**

Revenues:

Assessment proceeds - National Pork Board	\$ 72,924
South Carolina Pork Conference registration fees	<u>940</u>

Total revenue	<u>73,864</u>
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Expenditures:

Promotions	47,200
Education and research	7,346
Administration and operations	<u>13,226</u>

Total expenditures	<u>67,772</u>
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Excess of revenues over expenditures	6,092
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Fund balance - beginning of year	<u>103,703</u>
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Fund balance - end of year	<u><u>\$ 109,795</u></u>
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See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
PORK BOARD**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 1. Summary of Significant Accounting Policies

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 the 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.

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2012.

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, 2012, 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 classifications, provides for a hierarchy of spending constraints for spendable resources and requires disclosure of nonspendable and spendable resources.

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

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

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

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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

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

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

At June 30, 2012, all of the Board's net assets 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, revenue, and expenditures and affect disclosure of contingent assets 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 2012 expenditures applicable to related party transactions are not readily available.

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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 2012 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 distribute 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.

A summary of transactions for the Pork Conference Account for the year ended June 30, 2012 is as follows:

Deposits	\$	2,141
Expenditures	\$	10,598

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.

**SOUTH CAROLINA DEPARTMENT OF AGRICULTURE
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**NOTES TO FINANCIAL STATEMENTS
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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 (Office of Insurance Services);
2. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).
3. Claims of covered public employees for workers' 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 IRF. 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.

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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.

**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 the financial statements of the South Carolina Department of Agriculture – Pork Board ("the Board") as of and for the year ended June 30, 2012, and have issued our report thereon dated September 11, 2012. 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

Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board'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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Board'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. 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.

This report is intended solely for the information and use of the State Auditor, Commissioner and Management of the South Carolina Department of Agriculture – Pork Board and is not intended to be and should not be used by anyone other than these specified parties.

Rogers Lalan, PA

September 11, 2012