

September 9, 1998

The Honorable David M. Beasley, Governor
and
Members of the South Carolina Soybean Board
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Agriculture – Soybean Board for the fiscal year ended June 30, 1998, was issued by Wilkes & Company, 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,

Edgar A. Vaughn, Jr., CPA
State Auditor

EAV/tdc

**SOUTH CAROLINA
DEPARTMENT OF AGRICULTURE -**

SOYBEAN BOARD

For the Year Ended June 30, 1998

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -
SOYBEAN BOARD

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INDEPENDENT AUDITORS' REPORT

Mr. Edgar A. Vaughn, Jr., CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited the accompanying balance sheet of the South Carolina Department of Agriculture - Soybean Board special revenue fund as of June 30, 1998 and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. 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 generally accepted auditing standards. 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 - Soybean 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 Soybean Board special revenue fund and do not include any other amounts 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 position and results of operations of the South Carolina Department of Agriculture in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Department of Agriculture - Soybean Board special revenue fund as of June 30, 1998 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Columbia, South Carolina
August 21, 1998

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -
SOYBEAN BOARD

BALANCE SHEET

June 30, 1998

ASSETS

Cash	\$ 87,643
Accounts receivable	<u>16,555</u>
Total Assets	<u>\$ 104,198</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts payable	\$ 13,257
Payable to United Soybean Board	5,761
Accrued payroll	<u>3,215</u>
Total Liabilities	<u>22,233</u>
Fund Equity:	
Fund balance (unreserved)	<u>81,965</u>
Total Liabilities and Fund Equity	<u><u>\$ 104,198</u></u>

THE ACCOMPANYING NOTES ARE

AN INTEGRAL PART OF THIS STATEMENT

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -
SOYBEAN BOARD

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

For the Year Ended June 30, 1998

Revenues:		
Assessments		\$ 256,304
Total Assessment Revenues		256,304
Less:		
Assessments remitted to other states		33,394
Assessments remitted to United Soybean Board		<u>111,455</u>
Net Assessment Revenues		<u>111,455</u>
Expenditures:		
Personal services and benefits		38,177
Travel		8,610
Board member reimbursements		4,291
Operating expenses		7,397
Research		52,355
Promotion		<u>33,400</u>
Total Expenditures		<u>144,230</u>
Deficit of Revenues Over (Under) Expenditures		(32,775)
Fund Balance - July 1, 1997		<u>114,740</u>
Fund Balance - June 30, 1998		<u><u>\$ 81,965</u></u>

THE ACCOMPANYING NOTES ARE

AN INTEGRAL PART OF THIS STATEMENT

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -
SOYBEAN BOARD

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Entity Description

The South Carolina Soybean 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 State of South Carolina's primary government 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 fund of the South Carolina Soybean Board is included in the financial statements of the Department of Agriculture. The Board was established for education, promotion and research to strengthen the soybean industry's position in the marketplace.

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

The South Carolina Department of Agriculture administers the South Carolina Soybean 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 Soybean 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 South Carolina Soybean 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 South Carolina Soybean Board are reported in the special revenue funds of the South Carolina Department of Agriculture financial statements. Basis of accounting refers to when revenues 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 South Carolina Soybean 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.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -
SOYBEAN BOARD

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1998

(Continued)

All special revenue funds of governmental units are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. All revenues 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, such long term amounts are not recognized as expenditures in special revenue funds. They are instead reported as liabilities in the General Long-Term Debt Account Group, which is not presented in the accompanying statement. Such amounts would include accumulated unpaid vacation, sick pay, and other employee amounts.

Budgetary Controls

The following is a description of the budgetary process of the South Carolina Soybean Board:

Several months prior to the start of the fiscal year a budget proposal for revenue and expenditures is developed by the executive director of the South Carolina Soybean Board. 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.

General Fixed Assets and General Long Term Debt

Any general fixed assets purchased by the Soybean Board are recorded as an expenditure in the statement of revenues, expenditures, and changes in fund balance when the liability is incurred. Because general fixed assets of the South Carolina Soybean Board are accounted for in aggregate with the South Carolina Department of Agriculture the amounts of the Soybean Board's general fixed assets are not available. Accounting for general fixed assets and general long term debt is not included in the financial statements of the South Carolina Soybean Board special revenue fund. Any financial activity related to these accounts is included in the financial statements of the South Carolina Department of Agriculture.

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 workweek are entitled to accrue and carry forward at calendar year-end 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

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -
SOYBEAN BOARD

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1998

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leave for which the Department expects to compensate employees through paid time off or cash payments. The leave liability, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments is recorded in the Department's general long term debt.

The portion of the Department of Agriculture's accrued compensated absences attributable to the Soybean Board's employees at June 30, 1998 was \$1,871.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, 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 - CASH

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

The state keeps certain monies in a pooled general deposit account and records each funds equity interest in the pool. The accounts classified as "Cash" in the financial statements include such deposits with the State Treasurer on which earned interest is credited to the General Fund of the State.

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1998 all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

NOTE 3 - PENSION PLAN AND OTHER EMPLOYEE BENEFITS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The one full time employee of the South Carolina Department of Agriculture - Soybean Board is covered by a pension plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -
SOYBEAN BOARD

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1998

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administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 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. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. 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.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 9.466 percent which included a 1.916 percent surcharge to fund retiree health and dental insurance coverage. The Board's actual contributions to the SCRS for the fiscal year ended June 30, 1998 were \$2,324, and equaled the required contributions of 7.55 percent (excluding the surcharge) for the year. Employer contributions for fiscal year 1997 were \$2,245 and for fiscal year 1996 were \$1,710. Also, the Board paid employer group-life insurance contributions of \$46 in the current fiscal year at the rate of .15 percent of compensation.

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, benefits, and employee/employer contributions for each pension plan. 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 12 consecutive quarters of compensation).

The System does not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the Board's liability under the plan is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Board's liability under the pension plan is limited to the contribution requirements for the applicable year. Accordingly, the Board recognizes no contingent liability for unfunded costs associated with participation in the plan.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1998

(Continued)

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.

Post-Retirement 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 active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time employees of the South Carolina Department of Agriculture - Soybean Board 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 requirement, 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. These benefits are provided through the Board's applicable revenue sources for active employees and the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable revenue sources of the South Carolina Department of Agriculture - Soybean Board for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 18,500 State retirees meet these eligibility requirements.

The South Carolina Department of Agriculture - Soybean Board recorded employer contribution expenses for these insurance benefits for active employees in the amount of \$1,723 for the year ended June 30, 1998. As discussed above, the Board paid \$590 applicable to the surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Division of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to the South Carolina Department of Agriculture - Soybean Board retirees is not available. By State law, the Board has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from system's earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1998

(Continued)

NOTE 4 - DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. The employee of the South Carolina Department of Agriculture - Soybean Board does not participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b) are accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Compensation deferred under the Section 401(k) and 403(b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets of the Section 457 plan to which the State has access is disclosed in its financial report.

NOTE 5 - RELATED PARTY TRANSACTIONS

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

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

The Department of Agriculture provides to the Board at no cost, office space, personnel and payroll services, record keeping, disbursement processing, insurance coverage and other centralized functions. The amount of 1998 expenditures applicable to these services is not readily determinable.

The South Carolina Soybean Board had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plans contributions, office supplies, printing, telephone, interagency mail, and data processing services. The amounts of 1996-1997 expenditures applicable to related party transactions are not readily available.

The South Carolina Soybean Board paid \$52,355 to Clemson University, a state supported institution, for soybean research.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -
SOYBEAN BOARD

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1998

(Continued)

The Board provided no services free of charge to the State agencies during the fiscal year.

Effective September 1991 the South Carolina Soybean Board, as a Qualified State Soybean Board, started remitting a portion of its assessment proceeds to the United Soybean Board. The authority for the formation of the United Soybean Board was the Soybean Promotion Research, and Consumer Information Act of 1990 (the "Act"), approved on November 28, 1990, by the United State Congress: The "Act" provides for the establishment of a coordinated program of promotion research and consumer information designed to strengthen the soybean industry's position in the marketplace, as well as to maintain and expand domestic and foreign markets and uses for soybeans and soybean products. As provided in the Act, the Secretary of the United States Department of Agriculture (the "Secretary") issued the Soybean Promotion and Research Order, effective November 28, 1990, which provides the terms and conditions for the Act's administration. The United Soybean Board (the "Board"), which was created and approved by the Secretary to administer the Act, consisted of various members who are representatives of the soybean industry in the United States.

The program is financed exclusively by an assessment of .05% of the net market price of the soybeans sold by the producer. The assessments are remitted to the South Carolina Department of Agriculture - Soybean Board. The United Soybean Board receives approximately one-half of assessment monies and the South Carolina Department of Agriculture retains the remainder.

Included in accounts payable is \$13,257 due to the United Soybean Board for its share of assessments on May and June sales by producers.

The Soybean Board also has related party transactions with the South Carolina Soybean Association. The Executive Director of the South Carolina Soybean Board is also the Executive Director of the South Carolina Soybean Association. There are some common board members between the two organizations also.

During this fiscal year, the South Carolina Soybean Association performed several promotional and educational projects related to produce communication and industry information for the South Carolina Soybean Board. The South Carolina Soybean Board reimbursed \$36,775 in actual costs incurred by the South Carolina Soybean Association for these projects.

NOTE 6 - RISK MANAGEMENT

The South Carolina Department of Agriculture - Soybean 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

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -
SOYBEAN BOARD

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1998

(Continued)

uninsured losses to the South Carolina Department of Agriculture - Soybean Board. The South Carolina Department of Agriculture - Soybean 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 risk 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); and
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 (Employment Security Commission).

The South Carolina Department of Agriculture and other entities pay premiums to the states Insurance Reserve Fund (IRF) which issues policies, accumulate 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 \$250 deductible.
2. Data processing equipment - Coverage is up to \$100,000 per loss with a \$250 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.

State agencies are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

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 \$25,000.

SOUTH CAROLINA DEPARTMENT OF AGRICULTURE -
SOYBEAN BOARD

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1998

(Continued)

The South Carolina Department of Agriculture - Soybean 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 are made by the Department and the Soybean Board does not reimburse any of these expenses.

COMPLIANCE LETTER

Mr. Edgar A. Vaughn, Jr., CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited the balance sheet of the South Carolina Department of Agriculture - Soybean Board special revenue fund for the year ended June 30, 1998, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. Our audit was made in accordance with generally accepted auditing standards.

In connection with our audit, since the South Carolina Soybean Board does not hold invested funds nor does it invest any funds, nothing came to our attention to indicate that the South Carolina Soybean Board failed to comply with the terms, insofar as they relate to accounting matters of the Soybean Promotion, Research and Consumer Information Act of 1990 and the Soybean Promotion and Research Order (the "Order") relative to investment of funds collected by a State Board and the provisions of Section 1220.211(j). However our audit was not directed primarily toward obtaining knowledge of such noncompliance in the use and investment of funds.

This report is intended solely for the information and use of the directors and management of the South Carolina Department of Agriculture - Soybean Board, the United Soybean Board and the United States Department of Agriculture and should not be used for any other purpose.

Columbia, South Carolina
August 21, 1998

COMPLIANCE LETTER

Mr. Edgar A. Vaughn, Jr., CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited the balance sheet of the South Carolina Department of Agriculture - Soybean Board special revenue fund for the year ended June 30, 1998, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and have issued our report dated August 21, 1998. Our audit was made in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

Compliance with the Soybean Promotion, Research and Consumer Information Act of (the "Act") 1990 and the Soybean Promotion and Research Order (the "Order") relative to the use of funds collected by the State Board and with the terms described in Section 1220.228(a) of the Order relative to prohibited uses of funds collected by the State Board, is the responsibility of the Board's management. As part of our audit, we assessed the risk that noncompliance with the Act and the Order as explained above, could cause the financial statements to be materially misstated. We concluded that the risk of such material misstatement was sufficiently low that it was not necessary to perform tests of the Board's compliance with the Act and the Order.

However, in connection with our audit, nothing came to our attention that caused us to believe that the South Carolina Department of Agriculture - Soybean Board has not complied, in all material respects, with the Act and the Order referred to in the preceding paragraph.

This report is intended solely for the information and use of the directors and management of the South Carolina Department of Agriculture - Soybean Board, the United Soybean Board, and the United States Department of Agriculture; and should not be used for any other purpose.

Columbia, South Carolina
August 21, 1998