

NORTH DAKOTA SOYBEAN COUNCIL  
FARGO, NORTH DAKOTA

**Audit Report**

For the Fiscal Year Ended  
June 30, 2010

ROBERT R. PETERSON  
STATE AUDITOR

Office of the State Auditor  
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

***Senator Randel Christmann – Chairman  
Representative RaeAnn G. Kelsch – Vice Chairman***

Representatives

*Rick Berg  
Merle Boucher  
Jeff Delzer  
Patrick R. Hatlestad  
Jerry Kelsh  
Keith Kempenich  
Gary Kreidt  
Louis Pinkerton  
Chet Pollert  
Bob Skarphol  
Blair Thoreson  
Benjamin A. Vig  
Lonny Winrich*

Senators

*Joan Heckaman  
Jerry Klein  
Judy Lee*

## ***Contents***

---

<b><i>Independent Auditor's Report</i></b>	<b><i>1</i></b>
<b><i>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</i></b>	<b><i>3</i></b>
<b><i>Management's Discussion and Analysis</i></b>	<b><i>5</i></b>
<b><i>Entity-wide Financial Statements</i></b>	<b><i>9</i></b>
<i>Statement of Net Assets</i>	<i>9</i>
<i>Statement of Activities - June 30, 2010</i>	<i>10</i>
<i>Statement of Activities - June 30, 2009</i>	<i>11</i>
<b><i>Governmental Fund Financial Statements</i></b>	<b><i>12</i></b>
<i>Balance Sheet</i>	<i>12</i>
<i>Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets</i>	<i>13</i>
<i>Statement of Revenues, Expenditures and Changes in Fund Balance</i>	<i>14</i>
<i>Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Fund to the Statement of Activities</i>	<i>15</i>
<i>Notes to the Financial Statements</i>	<i>16</i>
<b><i>Supplementary Information</i></b>	<b><i>23</i></b>
<i>Responses to LAFRC Audit Questions</i>	<i>23</i>
<i>LAFRC Audit Communications</i>	<i>24</i>
<i>Governance Communication</i>	<i>25</i>

## *Independent Auditor's Report*

---

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Deborah Johnson, Executive Director

We have audited the accompanying financial statements of the governmental activities and the major fund of the North Dakota Soybean Council as of and for the years ended June 30, 2010 and 2009, which collectively comprise the North Dakota Soybean Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the North Dakota Soybean Council's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 discussed in Note 1, the financial statements of the North Dakota Soybean Council are intended to present the financial position, and the changes in financial position, of only that portion of the governmental activities and governmental funds of the state of North Dakota that is attributable to the transactions of the North Dakota Soybean Council. They do not purport to, and do not, present fairly the financial position of the state of North Dakota as of June 30, 2010 and 2009, and the changes in its financial position for the years then ended 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 financial position of the governmental activities and the major fund of the North Dakota Soybean Council as of June 30, 2010 and 2009, and the respective changes in financial position thereof for the years 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 August 25, 2010 on our consideration of the North Dakota Soybean Council'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 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.

The *management's discussion and analysis* on pages 5-8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson  
State Auditor

August 25, 2010



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

***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***

---

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Deborah Johnson, Executive Director

We have audited the accompanying financial statements of the governmental activities and the major fund of the North Dakota Soybean Council as of and for the fiscal year ended June 30, 2010, which collectively comprise the North Dakota Soybean Council's basic financial statements and have issued our report thereon dated August 25, 2010. 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 North Dakota Soybean Council's internal control over financial reporting as a basis for designing our auditing procedures 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 North Dakota Soybean Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Soybean Council'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 North Dakota Soybean Council'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 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 North Dakota Soybean Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and the Soybean Promotion and Research Order (the "Order") relative to the use and investment of funds collected by the North Dakota Soybean Council and with terms described in Sections 1220.228(a) and 1220.211(j) of the Order relative to prohibited uses of funds collected by the North Dakota Soybean Council, 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 management, the North Dakota Soybean Council's Board of Directors, the Governor and the Legislative Audit and Fiscal Review Committee and is not intended to be and should not be used by anyone other than these specified parties.



Robert R. Peterson  
State Auditor

August 25, 2010

## *Management's Discussion and Analysis*

---

This section of the North Dakota Soybean Council's annual financial report presents a discussion and analysis of the Council's financial performance during the fiscal years that ended June 30, 2010 and 2009. Please read this information in conjunction with the financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Council exceeded liabilities by \$3,544,472 and \$2,934,014 (reported as net assets) respectively on June 30, 2010 and 2009; representing increases of 21% and 26%, respectively.
- Assessment revenues were about \$6 million in fiscal year 2010 and \$5.4 million in fiscal year 2009, increases of 11.5% and 1%, respectively over the previous years.
- Program expenses increased slightly to about \$2,072,000 in fiscal year 2010 from about \$2,028,000 in fiscal year 2009.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is an introduction to the Council's basic financial statements, which consist of three components: 1) entity-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes an optional supplementary section.

#### **Entity-wide Statements**

The entity-wide financial statements provide a broad view of the Council's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Council's financial position, which assist in assessing the Council's economic condition at the end of the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Council's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets are an indicator of whether the Council's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Council's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected assessments and earned but unused vacation leave).

Both statements report all activities as governmental. Governmental activities are primarily supported by assessments, grants/contributions and miscellaneous revenue. All of the Council's services are reported under this category.

## **Fund Financial Statements**

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Council uses to keep track of specific sources of funding and spending for a particular purpose. The Council, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

All of the Council's services are reported in governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, the governmental fund financial statements focus on the near-term inflows and outflows of spendable resources. They also focus on the balances left at year-end that are available for future spending. Such information may be useful in evaluating whether there are more or fewer financial resources that can be spent in the near future to finance the Council's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-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 the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Council has one governmental fund – a special revenue fund. This fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and the fund financial statements.

## **Supplementary Information**

Supplementary information includes the special comments requested by the Legislative Audit and Fiscal Review Committee, communication with the oversight board and findings, recommendations and client responses, if any.

## **FINANCIAL ANALYSIS**

### **Entity-wide Statements**

As noted previously, net assets may serve over time as a useful indicator of a government's financial position. The Council's net assets increased by about \$610,000 to a total of \$3.5 million during fiscal year 2010, and by about \$563,000 to a total of \$2.9 million during fiscal year 2009. A comparative analysis of entity-wide data for fiscal years 2010, 2009, and 2008 follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Current and other assets	\$ 4,072,069	\$ 3,782,111	\$ 3,022,391
Capital assets, net	35,880	42,013	48,146
Total assets	<u>\$ 4,107,949</u>	<u>\$ 3,824,124</u>	<u>\$ 3,070,537</u>
Noncurrent liabilities	\$ 27,375	\$ 31,329	\$ 29,865
Current liabilities	536,102	858,781	669,442
Total liabilities	<u>\$ 563,477</u>	<u>\$ 890,110</u>	<u>\$ 699,307</u>
Net assets			
Invested in capital assets, Net of related debt	\$ 31,081	\$ 34,654	\$ 38,442
Unrestricted	3,513,391	2,899,360	2,332,788
Total net assets	<u>\$ 3,544,472</u>	<u>\$ 2,934,014</u>	<u>\$ 2,371,230</u>

The largest component (approximately 99% in fiscal years 2010, 2009, and 2008) of the Council's net assets is unrestricted net assets, which may be used at the Council's discretion, but is subject to limitations on use based on State statutes.

The condensed financial information below reflects how the Council's net assets changed between fiscal years 2010, 2009, and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues:			
Program revenues			
Charges for services	\$ 2,443	\$ 25,878	\$ 27,400
Operating grants and contributions	14,458	83,656	65,581
General revenues			
Assessment revenues	6,026,861	5,404,540	5,341,151
Miscellaneous revenues	34,139	57,519	41,667
Total revenues	<u>\$ 6,077,901</u>	<u>\$ 5,571,593</u>	<u>\$ 5,475,799</u>
Expenses:			
Program expenses			
Administration	\$ 287,324	\$ 217,296	\$ 194,373
International marketing	315,064	384,037	286,522
Consumer information	149,558	165,757	145,663
Domestic marketing	283,717	322,824	296,314
Producer communications	389,260	308,360	374,992
Research	933,907	846,804	554,040
General expenses			
Remittances to Qualified State Soybean Boards	190,880	127,668	106,627
Remittances to United Soybean Board	2,917,733	2,636,063	2,615,698
Total expenses	<u>\$ 5,467,443</u>	<u>\$ 5,008,809</u>	<u>\$ 4,574,229</u>
Change in net assets	<u>\$ 610,458</u>	<u>\$ 562,784</u>	<u>\$ 901,570</u>
Net assets - beginning	<u>2,934,014</u>	<u>2,371,230</u>	<u>1,469,660</u>
Net assets - ending	<u>\$ 3,544,472</u>	<u>\$ 2,934,014</u>	<u>\$ 2,371,230</u>

Governmental activities increased the Council's net assets by about \$610,000 during fiscal year 2010. The 2010 increase was due to an approximate \$284,000 increase in total assets and an approximate \$326,000 decrease in total liabilities, both of which are explained in further detail below. The increase in net assets during fiscal year 2009 was smaller than 2008 (about \$563,000 in 2009 as compared with \$902,000 in 2008). The smaller increase in net assets during 2009 was primarily due to an approximate \$292,000 increase in research expenditures while revenues remained relatively stable from 2008 to 2009.

The increase in total assets during fiscal year 2010 can be primarily attributed to increased assessment revenues over fiscal year 2009. Assessment revenues increased by about \$622,000, while remittances to the United Soybean Board and Qualified State Soybean Boards increased by about \$345,000. The net increase in total general revenue of \$277,000 accounts for the increase in total assets.

The decrease in total liabilities during fiscal year 2010 can primarily be attributed to an approximate \$343,000 decrease in amounts due to the United Soybean Board from 2009 to 2010. Assessments receivable was approximately \$739,000 higher in 2009 than 2010 and since those receivables came in during 2010 the amounts due to the United Soybean Board were reduced proportionately. The United Soybean Board receives approximately half of total assessment collections.

Total program expenses remained relatively stable from 2009 to 2010, increasing by approximately 2%; while they increased by approximately 10% from 2008 to 2009 due to the Council increasing their spending on research.

#### **Fund Statements**

Since the Council has only one special revenue fund, the fund statements are not significantly different from the entity-wide statements.

#### **Budget Information**

The Council's special revenue fund has a continuing appropriation; therefore the state does not require the fund to have a budget.

#### **CAPITAL ASSETS**

At the end of fiscal years 2010 and 2009, the Council had three equipment items with a cost of \$100,739 and accumulated depreciation of \$64,859 and \$58,726 respectively. Additional information about the Council's capital assets is presented in Note 3 to the financial statements.

#### **ECONOMIC FACTORS**

The revenue for fiscal year 2011 is expected to be comparable to fiscal year 2010. This was due to fewer planted acres in the 2010 crop year, but with a higher yield and about the same market price.

#### **CONTACTING THE COUNCIL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Council's finances and to demonstrate the Council's accountability for the money it receives. Questions about this report or additional financial information should be addressed to the North Dakota Soybean Council, 1411 32<sup>nd</sup> Street S, Fargo, ND 58103.

## Entity-wide Financial Statements

### Statement of Net Assets

For the Fiscal Years Ended June 30, 2010 and 2009

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,866,207	\$ 849,078
Investments	1,760,000	1,750,000
Assessments receivable	442,921	1,181,730
Accounts receivable	1,885	
Interest receivable	1,056	1,303
Total current assets	<u>\$ 4,072,069</u>	<u>\$ 3,782,111</u>
Capital assets net of accumulated depreciation:		
Equipment	<u>\$ 35,880</u>	<u>\$ 42,013</u>
Total noncurrent assets	<u>\$ 35,880</u>	<u>\$ 42,013</u>
 Total Assets	 <u>\$ 4,107,949</u>	 <u>\$ 3,824,124</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable	\$ 237,421	\$ 192,590
Accrued payroll	26,970	25,517
Due to other state agencies	938	499
Due to the United Soybean Board	233,589	576,286
Due to Other Qualified State Soybean Boards	33,054	59,933
Compensated absence payable	1,335	1,396
Leases payable	2,795	2,560
Total current liabilities	<u>\$ 536,102</u>	<u>\$ 858,781</u>
Noncurrent liabilities:		
Compensated absence payable	25,371	26,530
Leases payable	2,004	4,799
Total noncurrent liabilities	<u>\$ 27,375</u>	<u>\$ 31,329</u>
 Total liabilities	 <u>\$ 563,477</u>	 <u>\$ 890,110</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	\$ 31,081	\$ 34,654
Unrestricted	<u>3,513,391</u>	<u>2,899,360</u>
 Total net assets	 <u>\$ 3,544,472</u>	 <u>\$ 2,934,014</u>

See Notes to the Financial Statements

## Statement of Activities

For the Fiscal Year Ended June 30, 2010

Function/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Program:				
International Marketing	\$ 315,064		\$ 1,048	\$ (314,016)
Consumer Information	149,558			(149,558)
Domestic Marketing	283,717		1,067	(282,650)
Producer Communications	389,260	\$ 2,443		(386,817)
Research	933,907		2,795	(931,112)
Total Program	<u>\$2,071,506</u>	<u>\$ 2,443</u>	<u>\$ 4,910</u>	<u>\$ (2,064,153)</u>
Administration	287,324		9,548	(277,776)
Total	<u>\$2,358,830</u>	<u>\$ 2,443</u>	<u>\$ 14,458</u>	<u>\$ (2,341,929)</u>
<u>General Revenues</u>				
Assessment Revenues Collected from 1st Purchasers				\$ 6,026,861
Less:				
Assessment Revenue Remitted to Qualified State Soybean Boards				(190,880)
Assessment Revenue Remitted to United Soybean Board				(2,917,733)
Total General Revenues				<u>\$ 2,918,248</u>
Interest Income				\$ 33,518
Miscellaneous Revenue				621
Total Revenues				<u>\$ 2,952,387</u>
Increase in Net Assets				\$ 610,458
Net Assets, Beginning of Year				2,934,014
Net Assets, Ending				<u>\$ 3,544,472</u>

See Notes to the Financial Statements

## Statement of Activities

For The Fiscal Year Ended June 30, 2009

Function/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Program:				
International Marketing	\$ 384,037			\$ (384,037)
Consumer Information	165,757			(165,757)
Domestic Marketing	322,824		\$ 70,866	(251,958)
Producer Communications	308,360	\$ 25,878		(282,482)
Research	846,804		10,000	(836,804)
Total Program	\$ 2,027,782	\$ 25,878	\$ 80,866	\$ (1,921,038)
Administration	217,296		2,790	(214,506)
Total	\$ 2,245,078	\$ 25,878	\$ 83,656	\$ (2,135,544)
 <u>General Revenues</u>				
Assessment Revenues Collected from 1st Purchasers				\$ 5,404,540
Less:				
Assessment Revenue Remitted to Qualified State Soybean Boards				(127,668)
Assessment Revenue Remitted to United Soybean Board				(2,636,063)
Total General Revenues				\$ 2,640,809
Interest Income				\$ 36,425
Miscellaneous Revenue				21,094
Total Revenues				\$ 2,698,328
Increase in Net Assets				\$ 562,784
Net Assets, Beginning of Year				2,371,230
Net Assets, Ending				\$ 2,934,014

See Notes to the Financial Statements

# *Governmental Fund Financial Statements*

---

## **Balance Sheet**

**June 30, 2010 and 2009**

---

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 1,866,207	\$ 849,078
Investments	1,760,000	1,750,000
Assessments receivable	442,921	1,181,730
Accounts receivable	1,885	
Interest receivable	1,056	1,303
Total assets	<u>\$ 4,072,069</u>	<u>\$ 3,782,111</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 237,421	\$ 192,590
Accrued payroll	26,970	25,517
Due to other state agencies	938	499
Due to the United Soybean Board	233,589	576,286
Due to Other Qualified State Soybean Boards	33,054	59,933
Total liabilities	<u>\$ 531,972</u>	<u>\$ 854,825</u>
 Fund Balance:		
Unreserved:		
Designated for NDSU Greenhouse	\$ 761,748	\$ 751,985
Undesignated	2,778,349	2,175,301
Total fund balance	<u>\$ 3,540,097</u>	<u>\$ 2,927,286</u>
Total liabilities and fund balance	<u>\$ 4,072,069</u>	<u>\$ 3,782,111</u>

See Notes to the Financial Statements

# Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets

June 30, 2010 and 2009

---

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Total fund balance - governmental fund	\$ 3,540,097	\$ 2,927,286
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital equipment used in governmental activities are not financial resources and therefore are not reported in the funds.	35,880	42,013
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(26,706)	(27,926)
Capital leases are not due and payable in the current period and therefore are not reported in the funds.	(4,799)	(7,359)
Net assets of governmental activities	<u>\$ 3,544,472</u>	<u>\$ 2,934,014</u>

See Notes to the Financial Statements

# Statement of Revenues, Expenditures and Changes in Fund Balance

For the Fiscal Years Ended June 30, 2010 and 2009

<u>Revenues</u>	Governmental Funds	
	2010	2009
Assessment revenues collected from 1st Purchasers	\$ 6,026,861	\$ 5,404,540
Less:		
Assessment revenue remitted to Qualified State Soybean Boards	(190,880)	(127,668)
Assessment revenue remitted to United Soybean Board	(2,917,733)	(2,636,063)
Net assessment revenues	\$ 2,918,248	\$ 2,640,809
Interest income	33,518	36,425
Miscellaneous revenue	17,522	130,628
Total revenues	<u>\$ 2,969,288</u>	<u>\$ 2,807,862</u>
<u>Expenditures</u>		
Program expenditures:		
International marketing	\$ 315,214	\$ 384,281
Consumer information	150,024	165,068
Domestic marketing	284,040	322,353
Producer communications	389,093	306,645
Research	930,624	842,705
Total program expenditures	<u>\$ 2,068,995</u>	<u>\$ 2,021,052</u>
Administration	<u>\$ 287,482</u>	<u>\$ 216,003</u>
Total expenditures	<u>\$ 2,356,477</u>	<u>\$ 2,237,055</u>
Revenues over expenditures	<u>\$ 612,811</u>	<u>\$ 570,807</u>
Fund Balance, Beginning of Year	<u>\$ 2,927,286</u>	<u>\$ 2,356,479</u>
Fund Balance, End of Year	<u>\$ 3,540,097</u>	<u>\$ 2,927,286</u>

See Notes to the Financial Statements

# Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Fund to the Statement of Activities

For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Revenues over expenditures - governmental fund	\$ 612,811	\$ 570,807
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:</p>		
<i>Depreciation expense</i>	(6,133)	(6,133)
<p>Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:</p>		
<i>Capital lease payments</i>	2,560	2,345
<p>Some items reported in the statements of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:</p>		
<i>Decrease (Increase) in compensated absences</i>	1,220	(4,235)
Change in net assets of governmental activities	\$ 610,458	\$ 562,784

See Notes to the Financial Statements

## **Notes to the Financial Statements**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the North Dakota Soybean Council (hereafter Council) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### **A. Reporting Entity**

For financial reporting purposes, the Council has included all funds, and has considered all potential component units for which the Council is financially accountable, and other organizations for which the nature and significance of their relationship with the Council are such that exclusion would cause the Council's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Council to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Council.

Based upon these criteria, there are no component units to be included within the Council as a reporting entity and the Council is included within the state of North Dakota as a reporting entity.

#### **B. Basis of Presentation**

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. The entity-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all non-fiduciary activities of the Council.

Pursuant to the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, effective for the Council's year ended June 30, 2004, the full scope of the Council's activities is considered to be governmental activity.

#### **C. Basis of Accounting**

The entity-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 30 days of year-end. The revenues that are determined to be susceptible to accrual are soybean assessments and interest.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

Program revenues include charges to customers or applicants for goods or services and operating grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all soybean assessments.

D. Budgetary Policies and Procedures

The Council is not legally required to budget expenditures because a continuous appropriation of all monies collected is granted to the Council under Section 4.1-11-15 of the North Dakota Century Code.

Encumbrances, which represent commitments related to unperformed contracts for goods or services, have not been recorded in the financial statements, as encumbrance accounting is not utilized.

E. Cash and Cash Equivalents

Cash and cash equivalents for reporting purposes includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rate. This includes investments with original maturity of three months or less. Also, cash, as reported, may be under the control of the State Treasurer or by other administrative bodies as determined by law.

F. Receivables

Receivables include assessments receivable on soybeans, accounts receivable, and interest receivable on investments.

G. Capital Assets

Capital assets are stated at cost. Equipment with an original cost of \$5,000 or more and an estimated useful life in excess of one year are capitalized and reported in the government-wide financial statements.

Depreciation is computed on a straight-line basis over the estimated useful life of the assets. The useful life for equipment is 3-20 years.

H. Compensated Absences

Annual and sick leave are a part of permanent employees' compensation as set forth in section 54-06-04 of the North Dakota Century Code. In general, accrued annual leave cannot exceed 30 days at April 30, while accrued sick leave is not limited. Employees are entitled to earn leave based on tenure of employment, within a range from a minimum of one working day, to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or

retirement, per section 54-06-14 of the North Dakota Century Code. Employees vest in sick leave at ten years of credible service, at which time the employer is liable for 10% of the accumulated unused sick leave. The government-wide financial statements present the cost of compensated absence as a liability. The governmental fund financial statements recognize compensated absence when the liability is incurred and payable from available expendable resources.

I. Net Assets/Fund Balance

The difference between fund assets and liabilities is “Net Assets” on the entity-wide statements and “Fund Balance” on the governmental fund statements.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

A. Deposits

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, “all state funds . . . must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provisions.

The carrying amount of deposits was \$1,866,207 and \$849,078 at June 30, 2010 and 2009 respectively. All deposits are exposed to custodial credit risk because they are not covered by depository insurance and the deposits are uncollateralized. All of the Council’s deposits are at the Bank of North Dakota. Deposits with the Bank of North Dakota are considered uninsured; however, these investments are guaranteed by the state of North Dakota (NDCC Chapter 6-09-10).

B. Investments

All investments must be short-term (one year or less), risk free (federally insured or fully collateralized) and interest bearing. The fair value of investments was \$1,760,000 and \$1,750,000 at June 30, 2010 and 2009, respectively. All investments were certificates of deposit insured by the U.S. government. NDCC 4-24-09 states the state treasurer shall credit 20% of the investment income to the general fund in the state treasury as payment for services when provided without cost to the Council, the remaining 80% is credited to the soybean fund.

**NOTE 3 - CAPITAL ASSETS**

The following is a summary of capital assets for the fiscal years ended June 30, 2010 and 2009:

	Balance 7/1/09	Increases	Decreases	Balance 6/30/10
Capital assets, depreciable:				
Equipment	\$ 100,739			\$ 100,739
Less accumulated depreciation	(58,726)	(6,133)		(64,859)
Total capital assets, depreciable	<u>\$ 42,013</u>	<u>(6,133)</u>		<u>\$ 35,880</u>

2010 depreciation expense allocated to:

Administration	\$ 551
International marketing	125
Consumer information	326
Domestic marketing	175
Producer communication	1,178
Research	3,778
	<u>\$ 6,133</u>

	Balance 7/1/08	Increases	Decreases	Balance 6/30/09
Capital assets, depreciable:				
Equipment	\$ 100,739			\$ 100,739
Less accumulated depreciation	(52,593)	(6,133)		(58,726)
Total capital assets, depreciable	<u>\$ 48,146</u>	<u>(6,133)</u>		<u>\$ 42,013</u>

2009 depreciation expense allocated to:

Administration	\$ 551
International marketing	125
Consumer information	326
Domestic marketing	175
Producer communication	1,153
Research	3,803
	<u>\$ 6,133</u>

**NOTE 4 - LONG-TERM LIABILITIES**

A summary of changes in the long-term liabilities for the fiscal years ended June 30, 2010 and 2009 is presented as follows:

	Balance 7/1/09	Additions	Reductions	Balance 6/30/10	Current Portion
Leases Payable	\$ 7,359		\$ (2,560)	\$ 4,799	\$ 2,795
Compensated Absences	27,926	\$ 18,227	(19,447)	26,706	1,335
Total	<u>\$ 35,285</u>	<u>\$ 18,227</u>	<u>\$ (22,007)</u>	<u>\$ 31,505</u>	<u>\$ 4,130</u>

	Balance 7/1/08	Additions	Reductions	Balance 6/30/09	Current Portion
Leases Payable	\$ 9,704		\$ (2,345)	\$ 7,359	\$ 2,560
Compensated Absences	23,691	\$ 17,533	(13,298)	27,926	1,396
Total	<u>\$ 33,395</u>	<u>\$ 17,533</u>	<u>\$ (15,643)</u>	<u>\$ 35,285</u>	<u>\$ 3,956</u>

## NOTE 5 – LEASE OBLIGATIONS

### A. Capital lease

The Council has one capital lease, for a copier. Principal and interest expenditures were \$2,560 and \$547, respectively for the fiscal year ended June 30, 2010; and \$2,345 and \$762 for the fiscal year ended June 30, 2009. Debt service requirements to maturity for capital lease obligations at June 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,795	\$ 312	\$ 3,107
2012	2,004	67	2,071
Total	<u>\$ 4,799</u>	<u>\$ 379</u>	<u>\$ 5,178</u>

### B. Operating leases

The Council now has one operating lease, for the rent of office space. During 2009 there was an additional lease for a mailing system. Expenditures for operating leases were \$24,853 and \$24,700, respectively for the fiscal years ended June 30, 2010 and 2009. Debt service requirements to maturity for operating lease obligations at June 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2011	\$ 25,068
2012	25,068
2013	14,623
Total	<u>\$ 64,759</u>

## NOTE 6 - PENSION AND POST-RETIREMENT PLANS/BENEFITS

The Council participates in the North Dakota Public Employees' Retirement System (NDPERS), administered by the state of North Dakota. The following is a brief description of the plan:

### A. Description of Pension Plan

NDPERS has a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the state. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to either a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit, if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid; the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary, with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65), equal to 2% for each year of service times their final average salary. The plan permits early retirement at ages 55-64, with three or more years of service.

#### B. Pension Plan Funding Policy

NDPERS is funded by employee contributions (set by statute) of 4% of regular compensation. During the 1983-1985 biennium the state implemented the employer pickup provision of the IRS code whereby a portion or all of the required employee contributions are made by the employer. The state is paying the full employee contribution. Employer contributions of 4.12% of covered compensation are set by statute. The required contributions are determined using an entry age normal actuarial funding method. Employees participating in the retirement plan, as part-time/temporary members are required to contribute 8.12% of their covered compensation.

#### C. State Group Health Plan

Section 54-52.1-03.2 of the North Dakota Century Code establishes a Retiree Health Benefits Fund to provide members who receive retirement benefits from the Public Employees Retirement System a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The employer contribution for the Public Employees Retirement System is set by statute on an actuarially determined basis (projected unit actuarial cost method) at 1.14% of covered compensation. Employees participating in the retirement plan, as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Benefits Fund.

The North Dakota Retirement Board was created by the state legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. The Council's required and actual contributions to NDPERS for the fiscal years ending June 30, 2010, 2009, and 2008 were \$21,665, \$20,774, and \$19,379, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to: NDPERS, 400 East Broadway, Suite 505, PO Box 1657, Bismarck, ND 58502-1657.

### **NOTE 7 - RISK MANAGEMENT**

The Council is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues.

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability

of the state and its agencies' employees and the university system. All state agencies participate in the RMF and their fund contribution is determined using a projected cost allocation approach. The statutory liability of the state is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The Council also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover for loss to business personal property, up to a limit of \$100,000. Replacement cost coverage is provided by estimating the replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$1,000,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Council participates in the North Dakota Worker's Compensation Bureau, an enterprise fund of the state of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the state's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior years and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

#### **NOTE 8 - RELATED PARTIES**

As noted in note one of these financial statements, the Council is an agency of the state of North Dakota; as such, other agencies of the state are related parties. The Council made payments to North Dakota State University, North Dakota State University Development Foundation, Northern Crops Institute, and the University of North Dakota for \$768,190 during fiscal year 2010 and \$749,391 during fiscal year 2009. The Council also has a particularly close working relationship with the North Dakota Soybean Growers Association and made payments to them of \$130,736 and \$101,903 during fiscal years 2010 and 2009 respectively. Effective September 6, 1996, the Council as Lessor leased a soybean combine (with a cost of \$80,621) to the North Dakota State University as Lessee for one year. The lease is automatically extended for one-year periods unless either party terminates the lease agreement. The lease payments are zero. The combine is to be used only within the soybean breeding program, with the Lessee providing insurance coverage and storage.

#### **NOTE 9 - COMMITMENTS**

The Council had approved research contracts with the North Dakota State University and the University of North Dakota for \$808,649 and \$724,966, respectively at June 30, 2010 and 2009.

## *Supplementary Information*

---

### **Responses to LAFRC Audit Questions**

*The Legislative Audit and Fiscal Review Committee (LAFRC) has requested that certain items be addressed by auditors performing audits of state agencies. The questions and our answer follow:*

- 1. What type of opinion was issued on the financial statements?*

Unqualified.

- 2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

- 3. Was internal control adequate and functioning effectively?*

Yes.

- 4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

- 5. Has action been taken on findings and recommendations included in prior audit reports?*

Yes.

- 6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

No.

## LAFRC Audit Communications

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

None noted.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

Management's estimate of the useful lives, as described in Note 1, is used to compute depreciation on capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

3. *Identify any significant audit adjustments.*

None.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are the most high-risk information technology systems critical to the North Dakota Soybean Council. No exceptions related to the operations of an information technology system were noted.

## **Governance Communication**

August 25, 2010

Legislative Audit and Fiscal Review Committee

North Dakota Soybean Council Board of Directors

We have audited the financial statements of the governmental activities and major fund of the North Dakota Soybean Council for the year ended June 30, 2010, and have issued our report thereon dated August 25, 2010. Professional standards require that we provide you with the following information related to our audit.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota Soybean Council are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the North Dakota Soybean Council during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of capital assets is based on the straight line method of calculating depreciation. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected the following misstatements: An overpayment of \$17,199.99 to the United Soybean Board caused by duplication on the quarterly deposit record and adjustments of \$20,194.23 to the Project Report of Revenue and Allocated Expenditures caused by missing or wrong activity codes or project codes.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated August 25, 2010.

**Management Consultations with Other Independent Accountants**

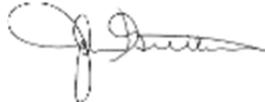
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Legislative Audit and Fiscal Review Committee and the North Dakota Soybean Council Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



John Grettum, CPA  
Audit Manager