

CLIENT CODE 611

NORTH DAKOTA SOYBEAN COUNCIL
FARGO, NORTH DAKOTA

Audit Report

For the Years Ended
June 30, 2011 and 2010

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

***Representative Dan Ruby – Chairman
Senator Terry M. Wanzek – Vice Chairman***

Representatives

*Dick Anderson
Tracy Boe
Patrick Hatlestad
RaeAnn G. Kelsch
Keith Kempenich
Gary Kreidt
Joe Kroeber
Andrew Maragos
Corey Mock
David Monson
Chet Pollert
Bob Skarphol
Lonny B. Winrich
Dwight Wrangham*

Senators

*Randel Christmann
Joan Heckaman
Jerry Klein
Judy Lee*

Contents

<i>Independent Auditor's Report</i>	<i>1</i>
<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>	<i>3</i>
<i>Management's Discussion and Analysis</i>	<i>5</i>
<i>Financial Statements</i>	<i>9</i>
<i>Statement of Net Assets</i>	<i>9</i>
<i>Statement of Activities</i>	<i>10</i>
<i>Statement of Activities</i>	<i>11</i>
<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 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>
<i>Supplementary Information</i>	<i>24</i>
<i>Responses to LAFRC Audit Questions</i>	<i>24</i>
<i>LAFRC Audit Communications</i>	<i>25</i>
<i>Findings, Recommendations, and Management Response</i>	<i>26</i>
<i>Governance Communication</i>	<i>29</i>



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

Independent Auditor's Report

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Diana Beitelspacher, 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, 2011 and 2010, 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 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 opinions.

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, 2011 and 2010, 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, 2011 and 2010, 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 September 27, 2011 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 through 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.



Robert R. Peterson
State Auditor

September 27, 2011



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 Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Diana Beitelspacher, 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, 2011, which collectively comprise the North Dakota Soybean Council's basic financial statements and have issued our report thereon dated September 27, 2011. 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 North Dakota Soybean Council is responsible for establishing and maintaining effective 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 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 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.

However, we noted certain matters that we reported to management of the North Dakota Soybean Council in a separate letter dated September 27, 2011, included in this report under Governance Communication.

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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the Findings, Recommendations, and Management Response section of this audit report as finding 11-1 and 11-2.

We noted certain matters that we reported to management of the North Dakota Soybean Council in a separate letter dated September 27, 2011 included in this report under Governance Communication.

This report is intended solely for the information and use of management, the North Dakota Soybean Council's Board of Directors, others within the entity, 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

September 27, 2011

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, 2011 and 2010. Please read this information in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Council exceeded liabilities by \$4,067,817 and \$3,544,472 (reported as net assets), respectively on June 30, 2011 and 2010; representing increases of 15% and 21%, respectively.
- Assessment revenues were about \$7.7 million in fiscal year 2011 and \$6 million in fiscal year 2010, increases of 28% and 11.5%, respectively over the previous years.
- Program expenses increased in fiscal years 2011 and 2010, about \$3.1 and \$2.1 million, respectively.

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 totaled \$4.1 million at the end of fiscal year 2011, compared to about \$3.5 million at the end of fiscal year 2010, signifying an increase in financial position. A comparative analysis of entity-wide data for fiscal years 2011, 2010, and 2009 follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Current and other assets	\$ 4,762,333	\$ 4,072,069	\$ 3,782,111
Capital assets, net	41,198	35,880	42,013
Total assets	<u>\$ 4,803,531</u>	<u>\$ 4,107,949</u>	<u>\$ 3,824,124</u>
Noncurrent liabilities	\$ 19,772	\$ 27,375	\$ 31,328
Current liabilities	704,491	536,102	858,781
Total liabilities	<u>\$ 724,263</u>	<u>\$ 563,477</u>	<u>\$ 890,109</u>
Net assets			
Invested in capital assets, Net of related debt	\$ 41,109	\$ 31,081	\$ 34,654
Restricted for commodity promotion	4,038,159	3,513,391	2,899,360
Total net assets	<u>\$ 4,079,268</u>	<u>\$ 3,544,472</u>	<u>\$ 2,934,014</u>

The largest component (99% in all fiscal years) of the Council's net assets reflects restricted net assets, which are 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 2011, 2010, and 2009:

Revenues:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Program revenues			
Charges for services	\$ 1,105	\$ 2,443	\$ 25,878
Grants and contributions	77,259	14,458	83,656
General revenues			
Assessment revenues	7,692,166	6,026,861	5,404,540
Miscellaneous revenues	22,797	34,139	57,519
Total revenues	<u>\$ 7,793,327</u>	<u>\$ 6,077,901</u>	<u>\$ 5,571,593</u>

Expenses:

Program expenses			
Administration	\$ 374,255	\$ 287,324	\$ 217,296
International marketing	401,545	315,064	384,037
Consumer information	120,535	149,558	165,757
Domestic marketing	316,796	283,717	322,824
Producer communications	392,591	389,260	308,360
Research	1,844,997	933,907	846,804
General expenses			
Remittances to Qualified State Soybean Boards	300,060	190,880	127,668
Remittances to United Soybean Board	3,507,752	2,917,733	2,636,063
Total expenses	<u>\$ 7,258,531</u>	<u>\$ 5,467,443</u>	<u>\$ 5,008,809</u>

Change in net assets	<u>\$ 534,796</u>	<u>\$ 610,458</u>	<u>\$ 562,784</u>
Net assets - beginning	<u>\$ 3,544,472</u>	<u>\$ 2,934,014</u>	<u>\$ 2,371,230</u>
Net assets - ending	<u>\$ 4,079,268</u>	<u>\$ 3,544,472</u>	<u>\$ 2,934,014</u>

Governmental activities increased the Council's net assets by about \$525,000 from fiscal year 2010 to 2011. This increase was due to an approximate \$684,000 increase in total assets and an approximate \$161,000 increase in total liabilities. The increase in total assets is explained in further detail below. The increase in liabilities is due primarily to an increase of \$148,000 for assessments owed to the United Soybean Board.

The increase in total assets can be primarily attributed to increased assessment revenues from fiscal year 2010 to 2011. Assessment revenues increased by about \$1,700,000 due to increased price and production. Per the USDA, the North Dakota price per bushel was \$11.30 in fiscal year 2011 compared to \$9.26 in fiscal year 2010 and production was \$138 million bushels in fiscal year 2011 compared to \$116 million bushels in fiscal year 2010. Alternately, remittances to the United Soybean Board and Qualified State Soybean Boards increased by about \$700,000.

Program expenses increased \$1,100,000. The largest program expense increases are for research (\$911,000), administration (\$98,000), and international marketing (\$86,000). Research expenses increased primarily due to the \$750,000 grant for the North Dakota State University Greenhouse. The increase in administration and international marketing expenses are due to normal operating increases.

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 2011 and 2010, the Council had three equipment items with a cost of \$93,147 and \$100,739, respectively, and accumulated depreciation of \$64,859 and \$58,726, respectively. In fiscal year 2011, the Council added one intangible asset with a cost of \$12,210. Additional information about the Council's capital assets is presented in Note 3 to the financial statements.

ECONOMIC FACTORS

The revenue for fiscal year 2012 is expected to be comparable to fiscal year 2011. This is due to a slight increase in planted acres in the 2011 crop year.

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 32nd Street South, Fargo, ND 58103.

Financial Statements

Statement of Net Assets

For the Fiscal Years Ended June 30, 2011 and 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 3,196,697	\$ 1,866,207
Investments	1,010,000	1,760,000
Assessments receivable	546,996	442,921
Accounts receivable	7,878	1,885
Interest receivable	762	1,056
Total current assets	<u>\$ 4,762,333</u>	<u>\$ 4,072,069</u>
Noncurrent assets:		
Equipment	\$ 41,198	\$ 35,880
Total noncurrent assets	<u>\$ 41,198</u>	<u>\$ 35,880</u>
 Total Assets	 <u>\$ 4,803,531</u>	 <u>\$ 4,107,949</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable	\$ 235,675	\$ 237,421
Accrued payroll	25,572	26,970
Due to other state agencies	857	938
Due to the United Soybean Board	381,140	233,589
Due to Other Qualified State Soybean Boards	59,762	33,054
Compensated absence payable	1,396	1,335
Leases payable	89	2,795
Total current liabilities	<u>\$ 704,491</u>	<u>\$ 536,102</u>
Noncurrent liabilities:		
Compensated absence payable	\$ 19,772	\$ 25,371
Leases payable		2,004
Total noncurrent liabilities	<u>\$ 19,772</u>	<u>\$ 27,375</u>
 Total liabilities	 <u>\$ 724,263</u>	 <u>\$ 563,477</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	\$ 41,109	\$ 31,081
Restricted for commodity promotion	4,038,159	3,513,391
 Total net assets	 <u>\$ 4,079,268</u>	 <u>\$ 3,544,472</u>

See Notes to the Financial Statements.

Statement of Activities

For the Fiscal Year Ended June 30, 2011

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Grants and Contributions</u>	<u>Governmental Activities</u>
Program:					
International Marketing	\$ 401,545		\$ 3,948		\$ (397,597)
Consumer Information	120,535				(120,535)
Domestic Marketing	316,796			\$ 45,787	(271,009)
Producer Communications	392,591	\$ 1,105			(391,486)
Research	1,844,997		12,125		(1,832,872)
Total Program	<u>\$ 3,076,464</u>	<u>\$ 1,105</u>	<u>\$ 16,073</u>	<u>\$ 45,787</u>	<u>\$ (3,013,499)</u>
Administration	374,255		15,399		(358,856)
Total	<u>\$ 3,450,719</u>	<u>\$ 1,105</u>	<u>\$ 31,472</u>	<u>\$ 45,787</u>	<u>\$ (3,372,355)</u>
General Revenues					
Assessment Revenues Collected from 1st Purchasers					\$ 7,692,166
Less:					
Assessment Revenue Remitted to Qualified State Soybean Boards					(300,060)
Assessment Revenue Remitted to United Soybean Board					(3,507,752)
Total General Revenues					<u>\$ 3,884,354</u>
Interest Income					\$ 22,797
Total Revenues					<u>\$ 3,907,151</u>
Increase in Net Assets					\$ 534,796
Net Assets, Beginning of Year					3,544,472
Net Assets, Ending					<u>\$ 4,079,268</u>

See Notes to the Financial Statements.

Statement of Activities

For the Fiscal Year Ended June 30, 2010

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Operating Charges for Services</u>	<u>Grants and Contributions</u>	<u>Governmental Activities</u>
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	<u>\$ 287,324</u>		<u>\$ 9,548</u>	<u>\$ (277,776)</u>
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				<u>(2,917,733)</u>
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				<u>2,934,014</u>
Net Assets, Ending				<u><u>\$ 3,544,472</u></u>

See Notes to the Financial Statements.

Balance Sheet

For the Fiscal Years Ended June 30, 2011 and 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 3,196,697	\$ 1,866,207
Investments	1,010,000	1,760,000
Assessments receivable	546,996	442,921
Accounts receivable	7,878	1,885
Interest receivable	762	1,056
Total assets	<u>\$ 4,762,333</u>	<u>\$ 4,072,069</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 235,675	\$ 237,421
Accrued payroll	25,572	26,970
Due to other state agencies	857	938
Due to the United Soybean Board	381,140	233,589
Due to Other Qualified State Soybean Boards	59,762	33,054
Total liabilities	<u>\$ 703,006</u>	<u>\$ 531,972</u>
 Fund Balance:		
Restricted	<u>\$ 4,059,327</u>	<u>\$ 3,540,097</u>
Total fund balance	<u>\$ 4,059,327</u>	<u>\$ 3,540,097</u>
Total liabilities and fund balance	<u>\$ 4,762,333</u>	<u>\$ 4,072,069</u>

See Notes to the Financial Statements.

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

For the Fiscal Years Ended June 30, 2011 and 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Total fund balance - governmental fund	\$ 4,059,327	\$ 3,540,097
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.	41,198	35,880
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(21,168)	(26,706)
Capital leases are not due and payable in the current period and therefore are not reported in the funds.	(89)	(4,799)
	<hr/>	<hr/>
Net assets of governmental activities	<u>\$ 4,079,268</u>	<u>\$ 3,544,472</u>

See Notes to the Financial Statements.

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Fiscal Years Ended June 30, 2011 and 2010

	Governmental Funds	
	June 30, 2011	June 30, 2010
<u>Revenues</u>		
Assessment revenues collected from 1st Purchasers	\$ 7,692,166	\$ 6,026,861
Less:		
Assessment revenue remitted to Qualified State Soybean Boards	(300,060)	(190,880)
Assessment revenue remitted to United Soybean Board	<u>(3,507,822)</u>	<u>(2,917,733)</u>
Net assessment revenues	\$ 3,884,284	\$ 2,918,248
Grants	45,787	
Interest income	22,797	33,518
Miscellaneous revenue	32,647	17,522
Total revenues	<u>\$ 3,985,515</u>	<u>\$ 2,969,288</u>
<u>Expenditures</u>		
Program expenditures:		
International marketing	\$ 401,826	\$ 315,214
Consumer information	121,128	150,024
Domestic marketing	316,961	284,040
Producer communications	394,191	389,093
Research	<u>1,845,475</u>	<u>930,624</u>
Total program expenditures	\$ 3,079,581	\$ 2,068,995
Administration	<u>\$ 386,704</u>	<u>\$ 287,482</u>
Total expenditures	<u>\$ 3,466,285</u>	<u>\$ 2,356,477</u>
Revenues over expenditures	<u>\$ 519,230</u>	<u>\$ 612,811</u>
Fund Balance, Beginning of Year	<u>\$ 3,540,097</u>	<u>\$ 2,927,286</u>
Fund Balance, End of Year	<u>\$ 4,059,327</u>	<u>\$ 3,540,097</u>

See Notes to the Financial Statements.

Reconciliation of the Changes in Fund Balances of the Governmental Fund to the Statement of Activities

For the Fiscal Years Ended June 30, 2011 and 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Revenues over expenditures - governmental fund	\$ 519,230	\$ 612,811
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures on the governmental fund type operating statement. However, in the government wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:</p>		
<i>Capital Outlay</i>	12,210	
<i>Depreciation expense</i>	(6,133)	(6,133)
<i>Loss on disposal of assets</i>	(759)	
<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>	4,710	2,560
<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 in compensated absences</i>	5,538	1,220
Change in net assets of governmental activities	<u>\$ 534,796</u>	<u>\$ 610,458</u>

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.

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned, or unassigned. All of the North Dakota Soybean Council’s fund balance is considered restricted.

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use by enabling legislation.

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 \$3,196,697 and \$1,866,207 at June 30, 2011 and 2010, 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 \$1,010,000 and \$1,760,000 at June 30, 2011 and 2010, 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, 2011 and 2010:

	Balance 7/1/10	Additions	Deletions	Transfers	Balance 6/30/11
Capital assets, depreciable					
Equipment	\$ 100,739		\$ (7,592)		\$ 93,147
Intangible assets		\$ 12,210			12,210
Total capital assets, depreciable	<u>\$ 100,739</u>	<u>\$ 12,210</u>	<u>\$ (7,592)</u>		<u>\$105,357</u>
Less accumulated depreciation					
Equipment	\$ 64,859		\$ (6,833)	\$ 6,133	\$ 64,159
Total accumulated depreciation	<u>\$ 64,859</u>		<u>\$ (6,833)</u>	<u>\$ 6,133</u>	<u>\$ 64,159</u>
Total capital assets, depreciable, net	<u>\$ 35,880</u>	<u>\$ 12,210</u>	<u>\$ (759)</u>	<u>\$ (6,133)</u>	<u>\$ 41,198</u>

Depreciation expense allocated to:

Administration	\$ 1,472
International marketing	491
Consumer information	675
Domestic marketing	245
Producer communication	2,453
Research	797
	<u>\$ 6,133</u>

	Balance 7/1/09	Additions	Deletions	Transfers	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>

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>

NOTE 4 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the fiscal years ended June 30, 2011 and 2010 is presented as follows:

	Balance 7/1/10	Additions	Reductions	Balance 6/30/11	Current Portion
Leases Payable	\$ 4,799		\$ (4,710)	\$ 89	\$ 89
Compensated Absences	26,706	\$ 13,228	(18,766)	21,168	1,396
Total	<u>\$ 31,505</u>	<u>\$ 13,228</u>	<u>\$ (23,476)</u>	<u>\$ 21,257</u>	<u>\$ 1,485</u>

	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>

NOTE 5 - LEASE OBLIGATIONS

A. Capital lease

The Council has one capital lease, for a copier. Principal and interest expenditures were \$4,710 and \$0, respectively for the fiscal year ended June 30, 2011 and \$2,560 and \$547 for the fiscal year ended June 30, 2010. 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>
2012	\$ 89		\$ 89
Total	<u>\$ 89</u>	<u>\$ -</u>	<u>\$ 89</u>

Operating leases

The Council has one operating lease, for the rent of office space. Expenditures for operating leases were \$25,068 and 24,853, respectively for the fiscal years ended June 30, 2011 and 2010. Debt service requirements to maturity for operating lease obligations at June 30, 2011 are as follows:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2012	\$ 25,068
2013	14,623
Total	<u>\$ 39,691</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, 2011, 2010, and 2009 were \$23,021, \$21,665, and \$20,774, 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 1 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 \$1,710,450 during fiscal year 2011 and \$768,190 during fiscal year 2010. The Council also has a particularly close working relationship with the North Dakota Soybean Growers Association and made payments to them of \$136,188 and \$130,736 during fiscal years 2011 and 2010, respectively. Effective September 6, 1996, the Council as Lessor leased a soybean combine (with a cost of \$80,621) to 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 North Dakota State University and the University of North Dakota for \$913,803 and \$808,649, respectively at June 30, 2011 and 2010.

Supplementary Information

Responses to LAFRC Audit Questions

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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, except for finding 11-1 on procurement and finding 11-2 on contracts which are described in the Findings, Recommendations, and Management Response section of this report.

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?*

There were no findings or recommendations in the prior audit.

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

Yes. The Governance Communication section of this report contains nine informal recommendations. Those recommendations address various internal control and compliance issues.

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.

Findings, Recommendations, and Management Response

PROCUREMENT (Finding 11-1)

We noted the following issues with the procurement process at the Soybean Council:

- The approved vendor on the state contract was not being used for secured document destruction;
- A Dell server was purchased from a vendor that is not on the approved vendor list on the state contract for Dell products (\$3,295);
- Laptops were purchased from Sam's Club instead of using the mandatory state contract for computers (\$5,980);
- A computer monitor was purchased from Best Buy instead of using the mandatory state contract for computer peripherals (\$240); and
- A CPA firm was hired to complete agreed-upon procedures for the first purchaser compliance reviews and no bids were obtained (\$11,997).

The state procurement office policy manual requires agencies to purchase from vendors on the approved vendor listing and state contracts. Further, NDCC 54-44.4-01 requires that each state agency obtain necessary commodities and services at a competitive cost, consistent with quality, time, and performance requirements with fair and equal opportunity to all persons qualified to sell to the state.

Failure to follow procurement office policy and NDCC requirements can lead to favoritism, fraud, and generally ineffective purchasing decisions which result in extra program costs to the detriment of the council and its stakeholders.

Recommendation:

We recommend that the ND Soybean Council review and follow the list of approved contractors and obtain bids for all procurements greater than \$2,500.

North Dakota Soybean Council's Response:

Secured Document Destruction

The NDSC agrees and will be using the secured document destruction services of Record Keepers, a state vendor in Fargo, moving forward.

Dell Server

The NDSC agrees and in the future, will obtain written approval from the State IT department before making a similar purchase. This server was purchased through the IT provider the NDSC contracted with for computer and IT support. It is believed that former Executive Director Deb Johnson received verbal approval from the State IT department to make this purchase, although no written confirmation of this approval can be found at the NDSC office.

Laptops

The NDSC agrees as to the importance of obtaining written documentation of any conversations and subsequent approvals received from individuals at other state offices. During the time of this purchase, the Council Budget Manager was in contact with Jeff Larshus at OMB to ask questions about purchasing these laptops and the vendor we planned to use. The Council obtained written quotes for the identical computers from other suppliers and those at Sam's

Club were the lowest cost. Considering the Council's need to be good stewards of our producers' checkoff dollars, the Council chose to purchase the laptops from the lowest cost vendor.

Computer Monitor

The NDSC respectfully disagrees. An employee's computer monitor burned out during the work day and an immediate replacement was required to remain productive. Since the cost was less than \$2,500 and the monitor was urgently needed, the Council opted to purchase one locally. We understand the importance of going through the state for these types of purchases, yet in this case; we did what we thought made the most business sense from a cost and productivity perspective.

CPA Firm

The NDSC agrees. The Council was never questioned in the past about using the CPA firm it uses to conduct first purchaser audits. Since this has now been brought to our attention, we will prepare and issue a formal RFP for this service moving forward.

CONTRACTS (Finding 11-2)

We examined a \$10,131 contract signed with Eide Bailly for services to hire an executive director. This contract was not bid and was not approved by the Attorney General's Office. Also, the services provided by Eide Bailly could have been done by the state's human resource department at no cost to state agencies.

We also reviewed a \$15,000 consulting arrangement entered into by the Council with Mishek, Inc. to provide consulting services to organize a trip to Vietnam and Indonesia. There was no bidding done for this consultant and no contract was drawn up, so the Attorney General's Office did not review.

State procurement guidelines state that for purchases of \$2,500.01 to \$25,000, no fewer than three vendors should be solicited to submit oral or written informal bids or proposals. For purchases over \$25,000, formal sealed bids or proposals must be obtained.

State procurement guidelines also state that after selecting the successful bid or proposal, a contract must be awarded with the statement of work agreed upon between the state and the successful vendor and incorporate all the terms and conditions from the solicitation using the Office of the Attorney General Contract and Review Manual and Sample Service Contract. If the contract has been furnished by the bidders, they need to be reviewed by the Attorney General to ensure the state is properly protected.

Recommendation:

We recommend the ND Soybean Council review and follow the list of approved contractors and obtain bids for all procurements greater than \$2,500.

North Dakota Soybean Council's Response:

Eide Bailly

The NDSC agrees to the extent that should it choose to follow a similar process in the future, it will consider developing and issuing a formal RFP or submitting an "Alternate Procurement Request" form to the state requesting approval to be carved-out from the traditional RFP process.

In anticipation of the high interest in this position by other state employees, the Board of Directors thought it best to use the services of a non-government entity in facilitating the hiring process for the Executive Director to maintain the integrity of the process and ensure undue preference would not be given to state employee applicants. It was the desire of the Board to ensure applicants from all business and agriculture sectors – both public and private – would be considered equally in the pre-screening and interview selection process. The Council Board did use the services of the State Human Resources department in coordinating reference checks, background checks and assembling the final compensation and benefits package and was very pleased with the work conducted.

Mishek Inc.

The NDSC respectfully disagrees with putting this service out for a competitive bid, yet agrees with the need to have a contract for services in place. In the future, the NDSC will document that this is considered to be a "sole source" issue. The Council has frequently used the services of Mishek Inc. for facilitating trade mission trips overseas for Directors and for bringing foreign guests to North Dakota – all with the goal of developing relationships with foreign buyers and opening up new markets for ND soybeans. It is critical that any firm hired to provide this service have significant expertise facilitating these types of trade missions because of the high level of detail required to ensure their success. While the Council recognizes the importance of complying with state bidding requirements, in this case, we believe it makes good business sense to continue with this relationship.



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

Governance Communication

September 27, 2011

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, 2011, and have issued our report thereon dated September 27, 2011. 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 governmental unit 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 all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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. The North Dakota Soybean Council disagreed with one point in Finding 11-1 and one point in Finding 11-2. For additional commentary, see the Findings, Recommendations, and Management's Response section of this audit report.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 27, 2011.

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.

The following presents our informal recommendations:

Purchase Cards (Informal 1)

Purchase card holders are not reconciling receipts to their monthly statement. Monthly receipts are reconciled to the master statement by the purchase card administrator.

Not in compliance with OMB policy 300. "...Reconciliation process - cardholders reconcile their receipts to their monthly statement, sign it, and submit it to their supervisor for review. Cardholder statements and original receipts should be submitted to the purchase card administrator for reconciliation to the agency statement.

Recommendation:

We recommend that the North Dakota Soybean Council have cardholders reconcile their receipts to the monthly statements and sign the statements in compliance with OMB Policy 300.

North Dakota Soybean Council's Response:

The NDSC agrees and is implementing the process of having each cardholder reconcile their receipts to their monthly statements, signing the statement and submitting it to the supervisor for approval. This material will then be given to the administrator for reconciliation to the agency statement.

Proper Account Codes (Informal #2)

We noted the following issues with improper account coding:

- Purchase card test – 8 out of 19 (42%) were miscoded:
 - Five charges were for groceries (533030) coded to office supplies (536015).
 - One charge was for groceries (533030) coded to in state meals (521020).
 - One charge was for software (531020) coded to furniture & furnishings (553010).
 - One charge was for computer equipment (551005) coded to furniture and furnishings 553010.
- Expenditure test – 11 out of 32 (34%) were miscoded:
 - Seven expenditures were for per diem salary for board members coded to 521060 – Non-State Employee Travel that should have been coded to 511045 – In-State Meeting Compensation.
 - One expenditure was for workshop supplies (binders, CD's, and printing costs) which was coded to 536015 - Office Supplies that should have been coded to 611005 - Conference Expenses.
 - One expenditure was for pop, creamer, and soy nuts which was coded to 536015 - Office Supplies that should have been coded to 533030 - Groceries or 611005 - Conference Expenses, depending on the use.
 - One expenditure was for conference room rental and meals/snacks provided at the conference which was coded to 621305 - Misc. Contractual Fees and 521020 – In-State Meals that should have been coded to 611005 - Conference Expenses.
 - One expenditure was for a grant which was coded to 621305 - Misc. Contractual Fees that should have been coded to 712050 - Grants to Associations.
- Capital expenditures test – 1 out of 11 (9%) were miscoded:
 - The expenditure for the board book license and installation was coded to 621305 - Misc. Contractual Fees that should have been coded to 693030 - IT Equip/Software Over \$5,000.

Good internal/management controls require that expenditures be properly coded to ensure proper budgeting and allow users of the financial statements to determine how funds were used.

Recommendation:

We recommend the North Dakota Soybean Council use proper account codes when coding expenditures.

North Dakota Soybean Council's Response:

The NDSC agrees and wishes to fully comply in this area. To successfully do so, it would be helpful to have definitions or specific examples of the types of items and activities that should be charged to each account listed in the Expenditure Object Codes list. Much of where fees should be charged is open to interpretation and as such, the likelihood of inadvertently miscoding to the wrong account will be an ongoing challenge without specific guidance in this area. The NDSC will work to be more consistent as to where, how, and why certain expenditures are coded to certain accounts and will work to avoid charging fees to the "Misc. Contract Fees" account. It will also work to put its own definition around what should get charged to specific accounts to help ensure consistency in account coding. The more obvious errors (e.g. charging software to the furnishings account) were likely the result of human error, which we will attempt to minimize moving forward.

Purchase Card Test

After reviewing the PeopleSoft inquiry for the software and computer equipment, it appears that when the Council Budget Manager reconciled the purchase card to PeopleSoft, the system did not save the codes. The miscoded grocery charges were likely the result of human error.

Expenditure Test – Per Diem Salary for Board Members

The Council Budget Manager called Jeff Larshus at OMB to ask about this and Jeff confirmed that Board Members are to be considered as state employees. The Council plans to address this with the Board at its December 1 meeting for consideration and direction moving forward.

Expenditure Test – Workshop Supplies

According to our Budget Manager, these items were office supplies and that funds for conference registration fees are typically charged to "conference expenses".

Expenditure Test – Office Supplies

This resulted from a different interpretation of what items should be charged to which account.

Expenditure Test – State Meals and Grants

The NDSC will work to avoid charging any expenses to the "Misc. Contract Fees" account.

Capital Expenditures Test – Diligent Board Book License

This resulted from a different interpretation of what items are to be charged to which account.

Council Members' Meal Reimbursement (Informal #3)

Two of the 19 purchase card charges examined were for actual costs of restaurant receipts. The amounts should not have been paid with a purchase card and the amounts paid were greater than allowed per state law. Council members should have submitted expense reimbursement vouchers for allowable meal costs.

Except as provided in North Dakota Century Code section 44-08-04.1, each elective or appointive officer, employee, representative, or agent of this state, or of any of its subdivisions, agencies, bureaus, boards, or commissions, may make claim for meals and lodging while engaged in the discharge of a public duty away from the claimant's normal working and living residence for all or any part of any quarter of a day. Claims may also be made for meals that are included as part of a registration fee for a conference, seminar, or other meeting, and for meals

attended at the request of and on behalf of the state or any of its subdivisions, agencies, bureaus, boards, or commissions; however, if a meal is included in a registration fee, the applicable quarter allowance cannot be claimed for that meal.

Recommendation:

We recommend that Council members, when in travel status, submit a claim for meals in accordance with NDCC 44-08-04.

North Dakota Soybean Council's Response:

The NDSC agrees to adhere to providing reimbursement for meals as set forth in state law.

Proper Support for Expenditures (Informal #4)

Payments made to the Soybean Growers for leadership grants (\$50.47) only had the summary credit card statement, therefore we were unable to determine what was being reimbursed and these payments were made for a meal without documentation of who attended the meal.

To ensure payments are only made for authorized purposes and to authorized persons, good internal controls require that expenses be based on adequate supporting documentation and a good audit trail requires the support to be maintained and attached to the voucher.

Recommendation:

We recommend reviewers ensure all expenses include detailed support evidencing business purpose and if for meals a list of those in attendance before payment is made.

North Dakota Soybean Council's Response:

The NDSC agrees and will be sending a request in writing to the ND Soybean Growers Association requesting an itemized receipt for meals provided under the Leadership Grant to reflect what was actually purchased, along with the number of individuals that were served.

Research Contracts/Cooperative Agreements (Informal #5)

Contracts/ Cooperative Agreements for Sponsored Funding are being paid on a percentage or estimate basis.

Good internal controls require that expenses be based on adequate supporting documentation and a good audit trail requires the support to be maintained and attached to the voucher.

Recommendation:

We recommend that future contracts require payments be made on a reimbursement basis (rather than based on estimates or percentages) and that all support be agreed to invoices.

North Dakota Soybean Council's Response:

The NDSC agrees that payments should not be made on an estimated basis. Yet, the Council will likely continue to provide a 25% up-front payment for research contracts to ensure researchers have sufficient project start-up funds. We will request that the Board of Directors adopt a policy stating how reimbursement for research contracts will be provided. Subsequent payments will be made on a quarterly basis only upon receipt of a report and financials detailing

how dollars for the previous quarter were spent and a demonstration that additional funds are needed to proceed with the project. In reviewing the financial report, if any expenses appear questionable, we will request that receipts and more detailed information be provided.

Leave Approval (Informal #6)

There is no approval of the Executive Director's leave.

Proper design and implementation of internal control policies and procedures for approval are necessary to ensure resources are properly used and management objectives are effectively achieved.

Recommendation:

We recommend the Executive Director's leave be approved by the Soybean Council's chairman.

North Dakota Soybean Council's Response:

The NDSC agrees and is implementing a process for obtaining approval from the Board Chairman for leave requested in advance by the Executive Director.

Tax Exempt (Informal #7)

The ND Soybean Council governing board allowed purchases of goods/services where sales tax was applied. As a government entity of ND, sales tax should not be paid on goods/services.

NDCC 57-39.2-04, subsection 6, states: Gross receipts from all sales otherwise taxable under this chapter made to the United States, an Indian tribe, or to any state, including the state of North Dakota, or any of the subdivisions, departments, agencies, or institutions of any state. A political subdivision of another state is exempt under this subsection only if a sale to a North Dakota political subdivision is treated as an exempt sale in that state. The governmental units exempted by this subsection must be issued a certificate of exemption by the commissioner and the certificate must be presented to each retailer whenever this exemption is claimed whenever this exemption is claimed.

Recommendation:

We recommend the ND Soybean Council use their tax exempt status to comply with NDCC 57-39.2-04, subsection 6, when purchasing goods/services.

North Dakota Soybean Council's Response:

The NDSC agrees and plans to comply with this requirement. The circumstances revealed in the audit were the result of human error (e.g. forgetting to remind the clerk that the Council is a tax exempt entity before the sale went through). Our employees will do their best to be cognizant of this fact and work to ensure sales tax is not charged. If this does happen again, the Council will do its best to recoup those funds from the vendor – particularly if the tax charged is high.

Great Plains Accounting System (Informal #8)

The Soybean Council is maintaining two sets of books. The Soybean Council is using Great Plains Financial to do budget reports and they also record everything that is recorded on PeopleSoft into Great Plains as well.

To operate efficiently and effectively, one computer system should be maintained and reports should be customized in PeopleSoft to save time by not entering all accounting entries into both systems.

Recommendation:

We recommend the Soybean Council:

1. Discontinue the use of the Great Plains accounting system and only use PeopleSoft; and
2. Work with OMB to develop or customize the needed reports.

North Dakota Soybean Council's Response:

The NDSC respectfully disagrees. The Council finds use of the Great Plains accounting system to be a highly effective business tool. We are able to locate amounts of charges faster and more efficiently. The system also enables us to produce financials that are easy to read and interpret by Council employees and directors. The Council reconciles to PeopleSoft on a monthly basis, which is effective in detecting errors in both systems if an account code was miscoded. PeopleSoft as its own system is not user friendly in these areas and as such, the Council's preference is to continue using both systems.

Lockbox Usage (Informal #9)

The Soybean Council lacks segregation of duties regarding the cash receipts process. Currently, the budget manager is opening the mail, writing receipts and entering the deposits onto the general ledger.

Proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring, and verification methods are necessary to ensure management objectives are effectively achieved.

Recommendation:

We recommend the Soybean Council properly segregate cash receipting and strongly consider using a lockbox service for their quarterly assessments in order to have better controls over the cash collection function.

North Dakota Soybean Council's Response:

The NDSC respectfully disagrees. It is the Council's opinion that the lockbox system is an outdated option in today's business environment. It is neither efficient, nor productive and opens the door to checks being lost in the mail or misplaced. The Council respectfully requests that the State provide agencies with a check scanner that will enable employees to scan checks right from their desktop and deposit them immediately into the bank. We believe such technology is warranted and would ultimately save the State considerable time and resources through enhanced productivity and efficiency.

One correction that should be made is that the Executive Director – not the Budget Manager – opens and distributes the mail. At the verbal request of the Auditors, the Council has implemented a process for manually entering information about all checks received into a log book – including where the check came from, the date it was received and the dollar amount. This will enable us to better reconcile monthly deposits.

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,

A handwritten signature in cursive script, appearing to read "Mary Feltman".

Mary Feltman, CPA
Auditor In Charge

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060