

NORTH DAKOTA
SOYBEAN COUNCIL
FARGO, NORTH DAKOTA
Audit Report

For the Fiscal Years Ended
June 30, 2018 and 2017

Joshua C. Gallion
State Auditor

Office of the State Auditor
Division of State Audit

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Primary Soybean Council Contacts

Stephanie Sinner, Executive Director
Molly Fern, Director of Finance

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
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FARGO, NORTH DAKOTA 58103

Independent Auditor's Report

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Stephanie Sinner, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Operating Fund of the North Dakota Soybean Council of the state of North Dakota, as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise the Operating Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Operating Fund of the North Dakota Soybean Council as of June 30, 2018 and 2017 and the change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Operating Fund of the North Dakota Soybean Council, and do not purport to, and do not present fairly the financial position of the state of North Dakota as of June 30, 2018 or 2017 or the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Also discussed in Note 1 to the financial statements, the North Dakota Soybean Council adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America required the management's discussion and analysis, the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions (Pension), the Schedule of Employer's Share of Net OPEB Liability, and the Schedule of Employer Contributions (OPEB) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Schedule of Employer's Share of Net Pension Liability and the Schedule of Employer Contributions as well as Employer's Share of Net OPEB Liability and the Schedule of Employer Contributions in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the North Dakota Soybean Council Operating Fund’s financial statements. The Schedule of Contracts/Grants in Process and Schedule of Activities – Actual and Budget are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Contracts/Grants in Process and Schedule of Activities – Actual and Budget is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Contracts/Grants in Process and Schedule of Activities – Actual and Budget is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Soybean Council’s internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota

September 26, 2018

Financial Statements

Balance Sheet

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 5,120,602	\$ 7,322,166
Investments	5,558,300	3,558,300
Assessments receivable	340,239	310,366
Interest receivable	3,167	1,218
Total assets	<u>\$ 11,022,308</u>	<u>\$ 11,192,050</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 555,547	\$ 687,698
Accrued payroll	60,240	55,904
Due to the United Soybean Board	508,771	392,687
Due to Other Qualified State Soybean Boards	57,343	48,954
Total liabilities	<u>\$ 1,181,901</u>	<u>\$ 1,185,243</u>
Fund Balance:		
Restricted	\$ 9,840,407	\$ 10,006,807
Total fund balance	<u>\$ 9,840,407</u>	<u>\$ 10,006,807</u>
Total liabilities and fund balance	<u>\$ 11,022,308</u>	<u>\$ 11,192,050</u>

See Notes to the Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance

	<u>Governmental Funds</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Revenues</u>		
Assessment revenues collected from 1st Purchasers	\$ 11,135,381	\$ 10,671,514
Less:		
Assessment revenue remitted to Qualified State Soybean Boards	(380,738)	(316,034)
Assessment revenue remitted to United Soybean Board	<u>(5,367,764)</u>	<u>(5,306,443)</u>
Net assessment revenues	\$ 5,386,879	\$ 5,049,037
Interest income	44,674	21,523
Miscellaneous revenue	89,267	86,304
Transfers from general fund		5,180
Total revenues	<u>\$ 5,520,820</u>	<u>\$ 5,162,044</u>
 <u>Expenditures</u>		
Program expenditures:		
Marketing	\$ 1,563,883	\$ 1,159,951
Communications	1,204,827	1,101,747
Research	1,788,438	1,664,100
Total program expenditures	<u>\$ 4,557,148</u>	<u>\$ 3,925,798</u>
Administration	<u>\$ 1,130,072</u>	<u>\$ 1,071,938</u>
Total expenditures	<u>\$ 5,687,220</u>	<u>\$ 4,997,736</u>
Revenues (under) over expenditures	<u>\$ (166,400)</u>	<u>\$ 164,308</u>
Fund Balance, Beginning of Year	<u>\$ 10,006,807</u>	<u>\$ 9,842,499</u>
Fund Balance, End of Year	<u>\$ 9,840,407</u>	<u>\$ 10,006,807</u>

See Notes to the Financial Statements.

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The responsibility for these financial statements, the internal control structure, and compliance with laws and regulations belongs to the management of the North Dakota Soybean Council (hereafter Council). A summary of the significant accounting policies follows:

A. Reporting Entity

For financial reporting purposes, the Council includes all funds, programs, and activities over which it is financially accountable. The Council does not have any component units as defined by the Government Accounting Standards Board. The Council was created by the state legislature and is part of the state of North Dakota as a reporting entity. The financial statements report all revenue and expenditure activity in the operations program.

B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. In accordance with NDCC section 4.1-11-15, these activities are funded on a continuing appropriation basis from a special revenue fund (the Soybean Council fund).

C. Fund Financial Statements

Separate fund financial statements are provided for the Soybean Council governmental fund.

D. Fund Accounting Structure

The Council uses a fund to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The Council reports the Soybean Council's operating fund as a major governmental fund. It is used to account for the collection of assessments and transactions to provide and participate in programs to increase the use and consumption of soybeans through such means as advertising, research, consumer information, industry information, sales promotion, and education of the soybean industry.

E. Basis for Accounting

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.

F. 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.

G. Investments

Investments include certificates of deposit that are reported at cost.

H. Receivables

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

I. Capital Assets

Capital assets are stated at cost. Equipment and intangible assets with an original cost of \$5,000 or more and an estimated useful life in excess of one year are capitalized. 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 and intangible assets is 5 years.

J. Accounts Payable

Accounts payable consists of amounts owed for committed grants, goods, and services received prior to June 30, 2018 and chargeable to the appropriations for the year then ended, but paid subsequent to that date.

K. Compensated Absences

Annual and sick leave are part of a 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.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Other Post Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Fund Balance

The difference between fund assets and liabilities is "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 Council's fund balance is considered restricted.

O. Program Expenditure Classification

Classification of program expenditures are reported to reflect the funds being spent on specific projects under the purview of each committee of the Council. The four primary categories are: Administration (overseen by the Executive Committee); Marketing (overseen by the Marketing Committee to include both domestic and international marketing programs); Research (overseen by the Research Committee); and Communications (overseen by the Communications Committee). Payroll is included in Administration rather than being allocated among the programs in order to present an accurate picture of where staff time was being spent.

P. New Accounting Pronouncements

During fiscal year 2017, the Council adopted GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, 68, and 73*.

During fiscal year 2018, Council adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*; GASB Statement No. 81, *Irrevocable Split-Interest Agreements*; GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishment Issues*.

The Council will implement the following new pronouncements for fiscal years ending after 2018: GASB Statement No. 83, *Certain Asset Retirement Obligations*; GASB Statement No. 84, *Fiduciary Activities*; GASB Statement No. 87, *Leases* and GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The effect that these GASB Statements will have on future financial statements has not yet been determined.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-02 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 \$5,120,602 and \$7,322,166 at June 30, 2018 and 2017, 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 \$5,558,300 and \$3,558,300 at June 30, 2018 and 2017, respectively. All investments were certificates of deposit insured by the U.S. government. NDCC 4.1-44-03 states the state treasurer shall credit twenty percent 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, 2018 and 2017:

	Balance 7/1/17	Additions	Adjustments	Transfers	Balance 6/30/18
Capital assets, depreciable					
Equipment	\$ 373,087	\$ 24,091			\$ 397,178
Intangible assets	12,210				12,210
Total capital assets, depreciable	<u>\$ 385,297</u>	<u>\$ 24,091</u>			<u>\$ 409,388</u>
Less accumulated depreciation					
Equipment	102,691	13,884			116,575
Intangible assets	12,210				12,210
Total accumulated depreciation	<u>\$ 114,901</u>	<u>\$ 13,884</u>			<u>\$ 128,785</u>
Total capital assets, depreciable, net	<u>\$ 270,396</u>	<u>\$ 10,207</u>			<u>\$ 280,603</u>

	Balance 7/1/16	Additions	Adjustments	Transfers	Balance 6/30/17
Capital assets, depreciable					
Equipment	\$ 373,087				\$ 373,087
Intangible assets	12,210				12,210
Total capital assets, depreciable	\$ 385,297				\$ 385,297
Less accumulated depreciation					
Equipment	88,623	14,068			102,691
Intangible assets	12,210				12,210
Total accumulated depreciation	\$ 100,833	\$ 14,068			\$ 114,901
Total capital assets, depreciable, net	\$ 284,464	\$ (14,068)			\$ 270,396

NOTE 4 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the fiscal years ended June 30, 2018 and 2017 is presented as follows:

	Balance 7/1/17	Additions	Reductions	Balance 6/30/18	Current Portion
Compensated Absences	\$ 55,434	\$ 29,194	\$ (35,392)	\$ 49,236	\$ 3,875
Total	\$ 55,434	\$ 29,194	\$ (35,392)	\$ 49,236	\$ 3,875

	Balance 7/1/16	Additions	Reductions	Balance 6/30/17	Current Portion
Compensated Absences	\$ 55,434	\$ 39,330	\$ (34,782)	\$ 59,982	\$ 5,056
Total	\$ 55,434	\$ 39,330	\$ (34,782)	\$ 59,982	\$ 5,056

NOTE 5 - LEASE OBLIGATIONS

The Council has two operating leases for the rent of office space and for a copier. Expenditures for operating leases were \$90,673 and \$86,086, respectively for the fiscal years ended June 30, 2018 and 2017. Debt service requirements to maturity for operating lease obligations at June 30, 2018 are as follows:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2019	\$ 109,068
2020	108,432
2021	105,252
2022	105,252
2023	110,027
2024 - 2028	<u>516,608</u>
Total	<u>\$ 1,054,639</u>

NOTE 6 - PENSION

The Council participates in the North Dakota Public Employees' Retirement System (NDPERS), administered by the state of North Dakota. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

A. Description of Pension Plan

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the state of North Dakota, its agencies, and various participating political subdivisions. NDPERS provides for pension, death, and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

B. Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

C. Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's 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 member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

D. Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

E. Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – greater of one percent of monthly salary or \$25
- 13 to 24 months of service – greater of two percent of monthly salary or \$25
- 25 to 36 months of service – greater of three percent of monthly salary or \$25
- Longer than 36 months of service – greater of four percent of monthly salary or \$25

F. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018 and 2017, the Council reported a liability of \$676,348 and \$393,757, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Council's proportion of the net pension liability was based on the Council's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017, the Council's proportion was 0.042079 percent which was an increase of 0.001677 percent from its proportion measured as of June 30, 2016. At June 30, 2016, the Council's proportion was 0.040402 percent which was a decrease of 0.001283

percent from its proportion measured as of June 30, 2015.

For the years ended June 30, 2018 and 2017, the Council recognized pension expense of \$103,021 and \$50,484, respectively.

At June 30, 2018, the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,020	\$ 3,295
Changes of assumptions	277,348	15,255
Net difference between projected and actual earnings on pension plan investments	9,096	
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,405	6,776
Employer contributions subsequent to the measurement date	32,183	
Total	\$ 333,052	\$ 25,326

\$32,183 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

At June 30, 2017, the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,915	\$ 3,646
Changes of assumptions	36,299	19,562
Net difference between projected and actual earnings on pension plan investments	54,935	
Changes in proportion and differences between employer contributions and proportionate share of contributions		8,553
Employer contributions subsequent to the measurement date	33,362	
Total	\$ 130,511	\$ 31,761

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 59,606
2020	72,087
2021	62,631
2022	52,054
2023	29,165
Thereafter	0

Actuarial assumptions. The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%

*Age-based salary increase rates apply for employees with three or more years of service

Investment rate of return 7.75%, net of investment expenses
 Cost-of-living adjustments None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
Private Equity	5%	10.20%
Domestic Fixed Income	17%	1.43%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.16%
Cash Equivalents	1%	0.00%

Discount rate. For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
Employer's proportionate share of the net pension liability	\$918,163	\$676,348	\$475,168

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Council participates in the North Dakota Public Employees' Retirement System (NDPERS), administered by the state of North Dakota. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

A. Description of OPEB Plan

NDPERS OPEB is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

B. OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period

of eight years ending October 1, 2015. 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 Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Council reported a liability of \$31,409 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Council's proportion of the net OPEB liability was based on the Council's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the Council's proportion was 0.039707 percent.

For the year ended June 30, 2018, the Council recognized OPEB expense of \$3,773.

At June 30, 2018, the Council reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 766
Changes of assumptions	\$ 3,042	
Net difference between projected and actual earnings on OPEB plan investments		1,188
Changes in proportion and differences between employer contributions and proportionate share of contributions		83
Employer contributions subsequent to the measurement date	5,153	
Total	\$ 8,195	\$ 2,037

\$5,153 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$ 46
2020	46
2021	46
2022	46
2023	343
2024	343
Thereafter	135

Actuarial assumptions. The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.56%

Discount rate. The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2017, and July 1, 2016, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employer's proportionate share of the net pension liability	\$39,320	\$31,409	\$24,627

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued NDPERS financial report.

NOTE 8 - 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 property damage to personal property. Replacement cost coverage is determined in consultation with the Fire and Tornado Fund. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$2,000,000 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 9 - 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, and the Northern Crops Institute of \$1,776,644 during fiscal year 2018 and \$1,423,931 during fiscal year 2017. All payments were for research, funding, or services contracts or sponsorships except payments to the North Dakota State University Development Foundation were for scholarships, promotion, and sponsorship.

The Council also has a particularly close working relationship with the North Dakota Soybean Growers Association and made payments for promotional contracts to them of \$408,099 and \$352,447 during fiscal years 2018 and 2017, respectively.

The Council has a close working relationship and contracted with the following entities for additional research or education programs during fiscal year 2018: the North Central Soybean Research Program for \$203,184; the World Initiative for Soy in Human Health for \$148,000; the United Soybean Export Council \$388,768; the Soy Transportation Coalition for \$52,212; the Soybean Research and Development Council \$177,300; and the National Biodiesel Board for \$109,983. Fiscal year 2017 expenditures were: the North Central Soybean Research Program for \$200,000; the World Initiative for Soy in Human Health for \$127,200; the United Soybean Export

Council \$250,973; the Soy Transportation Coalition for \$50,000; the Soybean Research and Development Council \$177,149; and the National Biodiesel Board for \$110,000.

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.

Effective March 27, 2013, the Council entered into an agreement with North Dakota State University for the use of a tractor owned by the Council. Terms of the agreement are for 36 months and may be renewed for two additional 3-year terms. Payments for the agreement are \$0. The tractor is to be used for research conducted by the soybean breeding program at the university.

Effective April 1, 2015, the Council entered into an agreement with North Dakota State University for use of a plot combine owned by the Council. Terms of the agreement are for 36 months and may be renewed for two additional 3-year terms. Payments for the agreement are \$0. The combine will be used for harvesting and other needs associated with the research activities of soybean breeding and research.

NOTE 10 - COMMITMENTS

The Council had approved research contracts with North Dakota State University for \$1,487,634; the North Dakota State University Development Foundation for \$116,000; the North Central Soybean Research Program for \$200,000; the Soybean Research and Development Council for \$134,700; the National Biodiesel Board for \$110,000; the United Soybean Export Council for \$630,847; the World Initiative for Soy in Human Health for \$127,700; the Northern Soy Marketing LLC for \$150,000 and approved promotional contracts with the North Dakota Soybean Growers Association for \$437,200 at June 30, 2018. The Council had approved research contracts with North Dakota State University for \$1,641,571; the North Dakota State University Development Foundation for \$116,000; the North Central Soybean Research Program for \$200,000; National Biodiesel Board for \$100,000; the United Soybean Export Council for \$372,430; World Initiative for Soy in Human Health for \$100,000; the Northern Soy Marketing LLC for \$215,197; and approved promotional contracts with the North Dakota Soybean Growers Association for \$404,900 at June 30, 2017.

NOTE 11 - VOLUNTARY TERMINATION BENEFITS

The Council and its former Chief Executive Officer reached an approved severance agreement during fiscal year 2018. The termination benefits included 2 ½ months of severance pay and full-time benefits at the CEO current salary when submitting the officer's resignation. The total severance expense for the council was \$57,458 in fiscal year 2018 with no further liability as the severance contract was fulfilled by both parties before the year end.

Required Supplementary Information

Schedule of Employer's Share of Net Pension Liability

**ND Public Employees Retirement System
Last 10 Fiscal Years***

	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.042079%	0.040402%	0.041685%	0.041512%
Employer's proportionate share of the net pension liability (asset)	\$676,348	\$393,757	\$283,451	\$263,486
Employer's covered-employee payroll	\$429,564	\$407,159	\$371,364	\$349,692
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	157.45%	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.45%	77.15%	77.70%

*Complete data for this schedule is not available prior to 2015. The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions

**ND Public Employees Retirement System
Last 10 Fiscal Years***

	2018	2017	2016	2015
Statutorily required contributions	\$32,182	\$33,362	\$30,950	\$28,603
Contributions in relation to the statutorily required contribution	(\$32,182)	(\$33,362)	(\$30,950)	(\$28,603)
Contribution deficiency (excess)	\$0	\$0	\$0	\$0
Employer's covered-employee payroll	\$417,512	\$429,564	\$407,159	\$371,364
Contributions as a percentage of covered employee payroll	7.71%	7.77%	7.60%	7.70%

*Complete data for this schedule is not available prior to 2015.

Schedule of Employer's Share of Net OPEB Liability

ND Public Employees Retirement System Last 10 Fiscal Years*

	2018
Employer's proportion of the net OPEB liability (asset)	0.039707%
Employer's proportionate share of the net OPEB liability (asset)	\$31,409
Employer's covered-employee payroll	\$429,564
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.31%
Plan fiduciary net position as a percentage of the total OPEB liability	59.78%

*Complete data for this schedule is not available prior to 2017. The amounts presented for each fiscal year have a measurement date of the previous fiscal year.

Schedule of Employer Contributions

ND Public Employees Retirement System Last 10 Fiscal Years*

	2018
Statutorily required contributions	\$5,153
Contributions in relation to the statutorily required contribution	(\$4,897)
Contribution deficiency (excess)	\$256
Employer's covered-employee payroll	\$429,564
Contributions as a percentage of covered employee payroll	1.14%

*Complete data for this schedule is not available prior to 2017.

Notes to Required Supplementary Information

For the Year Ended June 30, 2018

Changes of assumptions.

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

Supplementary Information

Schedule of Contracts/Grants in Process

Contract/Grant	FY18 Total Budgeted	Expended as of 6/30/18	Balance 6/30/18
Modification of Insoluble Dietary Fiber in Soybean Residue Okara	\$ 7,003		\$ 7,003
Impact of Storage Environments on Green & Semi-Green Soybeans	33,316		33,316
Establishment of Water Hemp Tissue Culture Lines for Herbicide Resistance Research	5,476		5,476
Managing Salinity with Cover Crops - A Whole System Response	54,625		54,625
Visual Ratings for IDC	81,762		81,762
Breeding of Improved Non-GMO Cultivars and Germplasm	225,697		225,697
Breeding of Glyphosate-Resistant Soybean Cultivars	162,120		162,120
Effect of Soil Salinity on Fusarium and Rhizoctonia Root Rots	34,000		34,000
Control of Soybean Diseases	53,400		53,400
Determining Optimal Planting Date and Soil Temperature for Enhanced Growth and Yield	11,883		11,883
Effect of Plant Population and Row Spacing on Physiology, Water Use Efficiency and Yield	15,953		15,953
Understanding Stem Diseases in ND	58,860		58,860
SCN Sampling Program 2018	59,580		59,580
High-Throughput Methods for Screening Soybean Varieties for Resistance to IDC	15,240		15,240
Water Stress Development and Mitigation in West Central ND	33,785		33,785
Maximizing Soil Warming and Health Under Different Tillage Practices in Corn-Soybean Rotation	62,635		62,635
Phosphorus Fertilizer Management of Soybeans Based on Time of Planting	15,820		15,820
Assessment of Potassium and Phosphorus Mining in Soybean Fields in ND	12,922		12,922
Determining Rye Safety to Soybeans with Soil Moisture Status	14,550		14,550
Soybean Response to Selected Plant Nutrition Inputs and Rye as a Cover-Companion Crop	8,000		8,000
Multi-Applications of Dicamba on Non-Dicamba Tolerant Soybeans	27,111		27,111
Determining Thresholds for Profitable Use of Fungicides to Control White Mold in Soybeans	16,062		16,062
Optimizing Fungicide Applications for Management of Sclerotinia in Soybeans	41,152		41,152
Soybean Soil Fertility in North Central and Northwest Central ND	7,366		7,366
Soy Protein Derived Thermoset Resins for Traditional Molding and 3D Printing	32,732		32,732
Research and Extension Efforts at the SHARE Farm	51,250		51,250
Soy Based Asphalt Rejuvenates	57,684		57,684
Fabrication and Utilization of Soybean Oleo Gel as Shortening Replacer in Cookies	29,510		29,510

(continued)

Contract/Grant	FY18 Total Budgeted	Expended as of 6/30/18	Balance 6/30/18
Identification of Pyrethroid Resistant Soybean Aphids and Use of Droids for Insect Scouting	40,000		40,000
Pre-Seeding and Inter-Seeding Cover Crops into Standing Soybean to Reduce SCN	7,335		7,335
Evaluation of Soybean Cultivars for Resistance to a New Root-Lesion Nematode Species in ND	7,173		7,173
Evaluating Soybean Cultivars and Germplasm for Resistance to SCN	51,270		51,270
Screening Cover Crops for Managing SCN and Other Nematodes in Infested Soils	31,480		31,480
Nitrogen Relationships with Soybean in SW North Dakota	14,944		14,944
Increasing Demand of U.S. Soybeans & Soymeal in SE Asia	14,167		14,167
Seeding Date and Cultivar Influence on Soybean in NE North Dakota	6,000		6,000
FY 2019 Research Roundtable Meetings (3 locations)	5,000		5,000
Barr Engineering Environmental Educator	23,500		23,500
Perten DA7250 System Purchase	15,000		15,000
3rd Intl Syposium on Renewables for Material	3,000		3,000
Fall-Seeded Cover Crop Tolerance to Soybean Herbicides	14,700		14,700
NCSRP Fargo Meeting August 2018	4,000		4,000
Soybean Educational Travel Fund	5,000		5,000
Identify & Develop Glyphosate Resistant Weed Maps in Soybean Fields	1,748		1,748
Understanding Stem Diseases in ND	8,002		8,002
Evaluation of Soybean Tolerance to Salinity, Alkalinity & Combo	5,821		5,821
NDSGA Leadership Contract	45,000		45,000
NDSGA Expo Edition Magazine Contract	13,250		13,250
NDSGA Magazine Contract	222,600		222,600
NDSGA Soy Promotion Contract - Employee Vehicle Contract	16,800		16,800
NDSGA Promotion Advertising Agreement	33,600		33,600
NDSGA Legislative Educator Agreement	90,000		90,000
NDSGA Annual Research Report Contract	15,950		15,950
North Central Soybean Research Program	200,000		200,000
Soybean Research and Development Council	134,700		134,700
National Biodiesel Board	110,000		110,000
NDSU Development Foundation	116,000		116,000
Northern Soy Marketing LLC	150,000		150,000
US Soybean Export Council	630,847		630,847
World Initiative for Soy in Human Health	127,700		127,700
	\$ 3,394,081		\$ 3,394,081

Contract/Grant	FY17 Total Budgeted	Expended as of 6/30/17	Balance 6/30/17
Identify & Develop Glyphosate Resistant Weed Maps in Soybean Fields	\$ 8,102		\$ 8,102
Investigating the Feasibility of Artificial Pollination as a Herbicide	1,399		1,399
Effective Winter Rye Management for Max Soybean Potential	2,700		2,700
Use of Exogenous Enzymes to Improve Nutritive Value of Soybean Hulls	12,740		12,740
Molecular Quantification of SCN in Soil in ND	9,587		9,587
Effects of SCN on Fusarium Root Rot of Soybeans	19,250		19,250
Soybean Soil Fertility in NC & NW North Dakota	15,532		15,532
Management of Soybean Aphids & Interaction with SCN	40,667		40,667
Maximizing Soil Warming & Health Under Different Tillage Practices in Corn-Soybean Rotation	57,430		57,430
Managing Salinity with Cover Crops: A Whole System Response	45,121		45,121
Road Performance Testing & Promotion of Soy-Based Dust Control	32,000		32,000
Evaluation of Soybean Tolerance to Salinity, Alkalinity, and the Combined Saline-Alkalinity	19,408		19,408
Soil & Water Management for Soybean Production	15,050		15,050
Nitrogen Relationships of Soybean in SW ND	14,944		14,944
Optimizing Fungicide Applications for Management of Sclerotinia in Soybeans	39,582		39,582
Assessment of Soybean Plant Population and Planting Date Impact on Performance in Western & Central ND	28,865		28,865
Evaluating Herbicide Incorporation Via Water Quantity & Timing Under Different Tillage Strategies	9,600		9,600
Soybean Yield Response with Selected Establishment Factors	8,700		8,700
Yield & Economic Evaluation of Soybean Biotechnology Varieties and Their Response to Selenium	16,189		16,189
Iron Fertilizer Evaluation and Improvement	10,680		10,680
Back to the Basics: Communicative Based Approach to Create Awareness & Knowledge of Weed	9,659		9,659
Impact of Best Water Management on Soil/Water Quality and Soybean Production	17,705		17,705
Monitoring Virulence Changing of SCN and Evaluating Soy Varieties for Resistance to New Virulent Type	48,450		48,450
SCN Sampling Programs 2017	60,580		60,580
Control of Soybean Diseases	57,300		57,300
Use of Silver Nanoparticles as an Alternative to Fungicides to Manage White Mold in Soybean	24,030		24,030
Breeding of Glyphosate Resistant Soybean Cultivars	164,720		164,720

(continued)

Contract/Grant	FY17 Total Budgeted	Expended as of 6/30/17	Balance 6/30/17
Research & Extension Efforts at the SHARE Farm	57,785		57,785
Soybean Ahid Control by Natural Enemies in Manitoba	35,075		35,075
Optimizing Row Spacing & Plant Populations for Management of Scleotinia in Soybeans	41,730		41,730
Phosphorus Fertilizer Management Decisions for Soybean Based on Time of Planting	21,990		21,990
Effect of Plant Population and Row Spacing on Physiology, Water Use Efficiency, & Yield of No-Till Soybeans	18,435		18,435
Water Stress Development & Mitigation in West-Central ND	30,450		30,450
Screening Cover Crops to Reduce SCN in Infested Fields	30,900		30,900
Understanding Stem Diseases in ND: Assessment & Education Effort	72,303		72,303
Effect of Soil Salinity on Fusarium & Rhizoctonia Roots of Soybeans	34,000		34,000
Breeding of Improved Non-GMO Cultivars & Germplasm	244,207		244,207
Visual Ratings for IDC	81,762		81,762
FY17 Extension Improving Soil Health an Productivity of Sodic Soils	20,358		20,358
FY17 Extension Harvesting Soil Salts from Soybean Production Fields	14,085		14,085
Increasing the Demand for U.S. Soybeans & Soy Meal in SE Asia	15,000		15,000
Nebraska Wind Tunnel & Palmer Amaranth Awareness Course	28,641		28,641
Optimization of Novel Soy-Based Resin for Commercial Acceptance	9,727		9,727
Developing High Performance "Green" Tires Using Soy Hull Based Cellulose	18,798		18,798
Research & Extension Efforts at the SHARE Farm	52,335		52,335
Research Roundtable Meeting Expenses	9,000		9,000
Barr Engineering Science Advisor on Water Quality	15,000		15,000
NDSGA Leadership Contract	45,000		45,000
NDSGA Expo Edition Magazine Contract	11,000		11,000
NDSGA Magazine Contract	218,400		218,400
NDSGA Soy Promotion Contract - Employee Vehicle Contract	16,500		16,500
NDSGA Promotion Advertising Agreement	33,000		33,000
NDSGA Legislative Educator Agreement	75,000		75,000
NDSGA Annual Research Report Contract	6,000		6,000
FY18 North Central Soybean Research Program	200,000		200,000
National Biodiesel Board	100,000		100,000
NDSU Development Foundation	116,000		116,000
Northern Soy Marketing LLC	215,197		215,197
US Soybean Export Council	372,430		372,430
World Initiative for Soy in Human Health	100,000		100,000
	\$ 3,150,098		\$ 3,150,098

Schedule of Activities – Actual and Budget

	June 30, 2018			June 30, 2017
	Actual	Budget	Difference	Actual
<u>Revenues</u>				
Assessment revenues collected from 1st Purchasers	\$ 11,135,381	\$ 4,464,000	\$ 6,671,381	\$ 10,671,514
Less:				
Assessment revenue remitted to QSSB's	(380,738)		(380,738)	(316,034)
Assessment revenue remitted to USB	(5,367,764)		(5,367,764)	(5,306,443)
Net assessment revenues	<u>\$ 5,386,879</u>	<u>\$ 4,464,000</u>	<u>\$ 922,879</u>	<u>\$ 5,049,037</u>
Interest income	\$ 44,674		\$ 44,674	\$ 21,523
Miscellaneous revenue	89,267		89,267	86,304
Transfers from general fund				5,180
Total revenues	<u>\$ 5,520,820</u>	<u>\$ 4,464,000</u>	<u>\$ 1,056,820</u>	<u>\$ 5,162,044</u>
<u>Expenditures</u>				
Program expenditures:				
Printing				
Marketing	\$ 1,563,883	\$ 1,700,000	\$ (136,117)	\$ 1,159,951
Communications	1,204,827	1,100,000	104,827	1,101,747
Producer education				
Research	1,788,438	2,100,000	(311,562)	1,664,100
Total program expenditures	<u>\$ 4,557,148</u>	<u>\$ 4,900,000</u>	<u>\$ (342,852)</u>	<u>\$ 3,925,798</u>
Administration	\$ 1,130,072	\$ 1,300,000	\$ (169,928)	\$ 1,071,938
Total expenditures	<u>\$ 5,687,220</u>	<u>\$ 6,200,000</u>	<u>\$ (512,780)</u>	<u>\$ 4,997,736</u>
Increase (Decrease) in Fund Balance	<u>\$ (166,400)</u>	<u>\$ (1,736,000)</u>		<u>\$ 164,308</u>



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OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
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Exhibits

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Stephanie Sinner, Executive Director

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Dakota Soybean Council Operating Fund, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise North Dakota Soybean Council's financial statements, and have issued our report thereon dated September 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Dakota Soybean Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Soybean Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Soybean Council's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying *Schedule of Findings, Recommendations and Management's Response* as finding 18-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Soybean Council Operating Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and the Soybean Promotion, Research and Consumer Information Act of 1990 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.

In connection with our audit, nothing came to our attention that caused us to believe that the North Dakota Soybean Council failed to comply with the terms, in so far as they related to accounting matters of the Soybean Promotion, Research and Consumer Information Act of 1990 and the Soybean Promotion Order (the "Order") relative to the use of funds collected by the North Dakota Soybean Council, with the terms described in Section 1220.228(a) of the Order relative to prohibited use of funds collected by the North Dakota Soybean Council, and with the terms described in Section 1220.211(j) of the Order relative to the investment of funds collected by the North Dakota Soybean Council. However, our audit was not directed toward obtaining knowledge of such noncompliance in the use and investment of funds.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North Dakota Soybean Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/S/

Joshua C. Gallion
State Auditor

Fargo, ND

September 26, 2018

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?

Unmodified

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?

No. We noted one internal control deficiency that needs to be addressed in regards to the preparation of financial statements. See Schedule of Findings, Recommendations, and Management's Response on page 33 for details.

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 recommendations in the prior reports.

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

Yes, the Governance Communication on page 34 of this report contains two informal recommendations relating to inadequate approval of expenditures and state procurement guidelines not being followed. Management of the Council agreed with and plans on implementing the recommendations.

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.*

None.

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 Capital Management System (HCM) 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's Response

PREPARATION OF FINANCIAL STATEMENTS (Finding 18-1)

Condition:

The Soybean Council does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures as required by Generally Accepted Accounting Standards (GAAP).

Criteria:

Management of the Soybean Council is responsible for establishing proper internal control over the preparation of the Soybean Council's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Cause:

This deficiency is due to limited resources coupled with the fact that the Soybean Council may not know how to prepare basic financial statements that comply with GAAP. Thus, management has elected to have the financial statements and note disclosures be prepared by the auditors.

Effect:

The Soybean Council's management is aware of the deficiency and addresses it by recording the underlining trial balance, as well as reviewing and approving the adjusting journal entries. However, as of June 30, 2018 and June 30, 2017, the financial statements and note disclosures were prepared by SAO.

Recommendation:

We recognize that the Soybean Council is not staffed with personnel fully knowledgeable of GAAP. However, it is important that they are aware of this weakness and that management accepts responsibility for the preparation and fair presentation of the financial statements in accordance with GAAP, even if the auditor assisted in drafting those financial statements.

Soybean Council Response/Planned Corrective Actions:

Agree. The NDSC is aware that there is a risk having the State Auditor's Office prepare and approve our financial statements and note disclosures. The NDSC is not staffed with personnel fully knowledgeable of GAAP. Due to this we will continue to have the State Auditor's Office prepare our financial statements and note disclosures for our annual audit.



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Governance Communication

September 26, 2018

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 years ended June 30, 2018 and 2017, and have issued our report thereon dated September 26, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 9, 2018. 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. As described in Note 1 to the financial statements, the North Dakota Soybean Council changed accounting policies related to other postemployment benefits by adopting Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* in fiscal year 2018. 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.

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. 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 September 26, 2018.

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 present our informal recommendations:

INADEQUATE APPROVAL OF EXPENDITURES

Condition:

We noted that the Executive Director reviews and approves her own travel vouchers and monthly purchase card transactions.

Criteria:

Standards for Internal Control in the Federal Government states in part, management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Effect:

Without adequate internal control, there is a risk that improper entries could be made to the general ledger.

Cause:

Approvals have always been done the by the Executive Director and on certain vouchers a secondary approval by the board chairman. However, the board chairman does not have sufficient support to adequately review and approve these vouchers.

Recommendation:

We recommend that the Executive Director's travel vouchers and monthly purchase card transactions be properly reviewed and approved, and the approval is documented.

Soybean Council Response/Planned Corrective Actions:

Agree: The NDSC understands the need for this recommended internal control. Going forward we will provide the Chairman with sufficient support to adequately review and approve the Executive Director expense vouchers. The Director of Finance will also review and approve the Executive Director's monthly purchase card transactions.

STATE PROCUREMENT GUIDELINES NOT FOLLOWED

Condition:

We noted the following issues surrounding procurement:

- Informal bids were obtained for a purchase; however, Soybean Council went with the highest bid (\$9,750);
- Contracts were entered into with three separate speakers without properly soliciting informal proposals (\$22,000); and
- Additional informal bids or proposals were not obtained for promotional items (\$3,893).

Criteria:

North Dakota State Procurement Manual Level 1 and 2 Small Purchase Procedures, Chapter 6, part 6.1, states in-part, for purchases from \$2,500.01 to \$25,000, agencies should solicit no fewer than three vendors, insofar as practical, to submit oral or written informal bids or proposals. If three bids or proposals are not received, a written justification should be provided.

North Dakota State Procurement Manual Level 1 and 2 Small Purchase Procedures, Chapter 7, part 7.3, states in part, informal bids must be awarded to the low bidder meeting specifications. Informal proposals must state the relative weight of cost and any other evaluation criteria that will be considered in making the award.

Effect:

There was non-compliance with the North Dakota State Procurement Manual Level 1 and 2 Small Purchases.

Cause:

There's a misunderstanding of the procurement guidelines surrounding informal bids and informal requests for proposals.

Recommendation:

We recommend that the Soybean Council review, understand, and adhere to the state procurement practices and work with OMB, as necessary, to properly procure commodities and services.

Soybean Council Response/Planned Corrective Actions:

Agree. The NDSC understands the need to comply with state procurement guidelines and plans to continue doing so. We have one employee dedicated to overseeing the procurement process who is Level III certified. This employee will be participating in the new Level III/Level IV procurement course this year. A second employee who also makes many of the NDSC purchases will be gaining Level II certification this year as well. This will help ensure that procurement guidelines are followed consistently throughout the year.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, and the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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 that reads "Robyn Hoffmann".

Robyn Hoffmann, CPA
Audit Manager

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or by contacting the
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