

North Dakota Office of the State Auditor

NORTH DAKOTA SOYBEAN COUNCIL

FARGO, NORTH DAKOTA

For the Fiscal Years Ended June 30, 2019 and 2018

Client Code 611



North Dakota State Auditor
Joshua C. Gallion

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Contents

<i>Independent Auditor’s Report</i>	<i>1</i>
<i>Financial Statements</i>	<i>4</i>
<i>Comparative Balance Sheet</i>	<i>4</i>
<i>Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance</i>	<i>5</i>
<i>Notes to the Financial Statements</i>	<i>6</i>
<i>Required Supplementary Information</i>	<i>20</i>
<i>Schedule of Employer’s Share of Net Pension Liability</i>	<i>20</i>
<i>Schedule of Employer Contributions</i>	<i>20</i>
<i>Schedule of Employer’s Share of Net OPEB Liability</i>	<i>21</i>
<i>Schedule of Employer Contributions</i>	<i>21</i>
<i>Notes to Required Supplementary Information</i>	<i>21</i>
<i>Supplementary Information</i>	<i>22</i>
<i>Schedule of Contracts/Grants in Process</i>	<i>22</i>
<i>Schedule of Activities – Actual and Budget</i>	<i>26</i>
<i>Exhibits</i>	<i>27</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>27</i>
<i>Responses to LAFRC Audit Questions</i>	<i>29</i>
<i>LAFRC Audit Communications</i>	<i>30</i>
<i>Findings, Recommendations and Management’s Response</i>	<i>31</i>
<i>Governance Communication</i>	<i>33</i>



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
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, 2019 and 2018 and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

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, 2019 and 2018 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, 2019 or 2018 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.

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 October 16, 2019 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

October 16, 2019

Financial Statements

Comparative Balance Sheet

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 3,698,897	\$ 5,120,602
Investments	5,558,300	5,558,300
Assessments receivable	774,094	340,239
Interest receivable	5,472	3,167
Total assets	<u>\$ 10,036,763</u>	<u>\$ 11,022,308</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 732,905	\$ 555,547
Accrued payroll	53,726	60,240
Due to the United Soybean Board	670,825	508,771
Due to Other Qualified State Soybean Boards	90,979	57,343
Total liabilities	<u>\$ 1,548,435</u>	<u>\$ 1,181,901</u>
 Fund Balance:		
Restricted	<u>\$ 8,488,328</u>	<u>\$ 9,840,407</u>
Total fund balance	<u>\$ 8,488,328</u>	<u>\$ 9,840,407</u>
Total liabilities and fund balance	<u>\$ 10,036,763</u>	<u>\$ 11,022,308</u>

See Notes to the Financial Statements.

Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance

	<u>Governmental Funds</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Revenues</u>		
Assessment revenues collected from 1st Purchasers	\$ 8,207,810	\$ 11,135,381
Less:		
Assessment revenue remitted to Qualified State Soybean Boards	(320,880)	(380,738)
Assessment revenue remitted to United Soybean Board	<u>(3,947,383)</u>	<u>(5,367,764)</u>
Net assessment revenues	\$ 3,939,547	\$ 5,386,879
Interest income	80,173	44,674
Miscellaneous revenue	124,350	89,267
Transfers from general fund		
Total revenues	<u>\$ 4,144,070</u>	<u>\$ 5,520,820</u>
 <u>Expenditures</u>		
Program expenditures:		
Marketing	\$ 1,714,727	\$ 1,563,883
Communications	1,131,754	1,204,827
Research	<u>1,573,678</u>	<u>1,788,438</u>
Total program expenditures	\$ 4,420,159	\$ 4,557,148
Administration	\$ 1,042,358	\$ 1,130,072
Total expenditures	<u>\$ 5,462,517</u>	<u>\$ 5,687,220</u>
Revenues (under) over expenditures	<u>\$ (1,318,447)</u>	<u>\$ (166,400)</u>
Fund Balance, Beginning of Year, as restated	<u>\$ 9,806,775</u>	<u>\$ 10,006,807</u>
Fund Balance, End of Year	<u>\$ 8,488,328</u>	<u>\$ 9,840,407</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 the North Dakota Century Code (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 Council's 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 their 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 fair value.

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, 2019 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 NDCC. 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 NDCC. 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. Restatement of Beginning Fund Balance

Fund Balance, Beginning of Year, as previously reported	\$ 9,840,407
<u>Prior Period Adjustment:</u>	
Correction of error	<u>(33,632)</u>
Fund Balance, Beginning of Year, As Restated	<u>\$ 9,806,775</u>

P. 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.

Q. New Accounting Pronouncements

During fiscal year 2018, the 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*

During fiscal year 2019, the Council adopted GASB Statement No. 83, *Certain Asset Retirement Obligations* and GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*.

The Council will implement the following new pronouncements for fiscal years ending after 2019: GASB Statement No. 84, *Fiduciary Activities*; GASB Statement No. 87, *Leases*; GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* and GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61*. 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 section 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 section 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 \$3,698,897 and \$5,120,602 at June 30, 2019 and 2018, 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 section 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 at June 30, 2019 and 2018. All investments were certificates of deposit insured by the U.S. government. NDCC section 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, 2019 and 2018:

	Balance 7/1/18	Additions	Adjustments	Transfers	Balance 6/30/19
Capital assets, depreciable					
Equipment	\$ 397,178				\$ 397,178
Intangible assets	12,210				12,210
Total capital assets, depreciable	<u>\$ 409,388</u>				<u>\$409,388</u>
Less accumulated depreciation					
Equipment	116,575	14,606			131,181
Intangible assets	12,210				12,210
Total accumulated depreciation	<u>\$ 128,785</u>	<u>\$ 14,606</u>			<u>\$ 143,391</u>
Total capital assets, depreciable, net	<u>\$ 280,603</u>	<u>\$ (14,606)</u>			<u>\$ 265,997</u>

	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	\$ 385,297	\$ 24,091			\$ 409,388
Less accumulated depreciation					
Equipment	102,691	13,884			116,575
Intangible assets	12,210				12,210
Total accumulated depreciation	\$ 114,901	\$ 13,884			\$ 128,785
Total capital assets, depreciable, net	\$ 270,396	\$ 10,207			\$ 280,603

NOTE 4 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the fiscal years ended June 30, 2019 and 2018 is presented as follows:

	Balance 7/1/18	Additions	Reductions	Balance 6/30/19	Current Portion
Compensated Absences	\$ 49,236	\$ 35,167	\$ (33,477)	\$ 50,926	\$ 4,553
Total	\$ 49,236	\$ 35,167	\$ (33,477)	\$ 50,926	\$ 4,553

	Balance 7/1/17	Additions	Reductions	Balance 6/30/18	Current Portion
Compensated Absences	\$ 59,982	\$ 29,194	\$ (39,940)	\$ 49,236	\$ 3,875
Total	\$ 59,982	\$ 29,194	\$ (39,940)	\$ 49,236	\$ 3,875

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 \$111,442 and \$90,673, respectively for the fiscal years ended June 30, 2019 and 2018. Debt service requirements to maturity for operating lease obligations at June 30, 2019 are as follows:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2020	\$ 112,200
2021	112,390
2022	112,390
2023	117,165
2024	121,940
2025 - 2029	<u>401,823</u>
Total	<u>\$ 977,908</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, 2019 and 2018, the Council reported a liability of \$541,554 and \$676,348, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017 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, 2018, the Council's proportion was 0.032090 percent which was a decrease of 0.009989 percent from its proportion measured as of June 30, 2017. 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.

While the Council's financial statements present expenditures on a modified accrual basis, the accrual based pension expense for the years ended June 30, 2019 and 2018 was \$73,062 and \$103,021, respectively.

Actuarial assumptions. The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%		
Salary increases	Service at Beginning of Year:	State Employee	Increase Rate:
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
Age*	Under 30	7.25%	10.00%
	30 - 39	6.50%	7.50%
	40 - 49	6.25%	6.75%
	50 - 59	5.75%	6.50%
	60+	5.00%	5.25%

*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	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	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).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

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 as of June 30, 2018 calculated using the discount rate of 6.32 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 (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
Employer's proportionate share of the net pension liability	\$735,871	\$541,554	\$379,402

The following presents the Employer's proportionate share of the net pension liability as of June 30, 2017 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, 2019 and 2018, the Council reported a liability of \$23,728 and \$31,409, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and 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 OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Council's proportion was 0.030128 percent which was a decrease of 0.009579 percent from its proportion measured as of June 30, 2017. At June 30, 2017, the Council's proportion was 0.039707 percent.

While the Council's financial statements present expenditures on a modified accrual basis, the accrual-based OPEB expense for the years ended June 30, 2019 and 2018 is \$2,039 and \$3,773, respectively.

Actuarial assumptions. The total OPEB liability in the July 1, 2018 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	7.75%, 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 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%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	0.10%

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, 2018, and July 1, 2017, 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, 2018, 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	\$30,021	\$23,728	\$18,333

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 and North Dakota State University Development Foundation of \$1,616,017 during fiscal year 2019 and \$1,776,644 during fiscal year 2018. 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 \$469,096 and \$408,099 during fiscal years 2019 and 2018, respectively.

The Council has a close working relationship and contracted with the following entities for additional research or education programs during fiscal year 2019: the North Central Soybean Research Program for \$207,500; the American Soybean Association for \$175,579; the United Soybean Board \$447,631; the Soy Transportation Coalition for \$50,000; the Soybean Research and Development Council \$173,567; the Northern Soy Marketing Board 150,000; and the National Biodiesel Board for \$110,093. Fiscal year 2018 expenditures were: the North Central Soybean Research Program for \$203,184; the American Soybean Association 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; the Northern Soy Marketing Board 215,197; and the National Biodiesel Board for \$109,983.

Effective July 1, 2016, 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 one additional 3-year term. 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 has approved research contracts with North Dakota State University for \$1,333,050; the North Dakota State University Development Foundation for \$616,000; the North Central Soybean Research Program for \$200,000; the Soybean Research and Development Council for \$129,700; the National Biodiesel Board for \$110,000; the United Soybean Board for \$250,000; the American Soybean Association for \$130,800; the Northern Soy Marketing LLC for \$150,000 and approved promotional contracts with the North Dakota Soybean Growers Association for \$418,125 at June 30, 2019. The Council has 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 Board for \$630,847; the American Soybean Association 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.

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*

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.032090%	0.042079%	0.040402%	0.041685%	0.041512%
Employer's proportionate share of the net pension liability (asset)	\$541,554	\$676,348	\$393,757	\$283,451	\$263,486
Employer's covered-employee payroll	\$329,664	\$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	164.27%	157.45%	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	62.80%	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*

	2019	2018	2017	2016	2015
Statutorily required contributions	\$24,281	\$32,182	\$33,362	\$30,950	\$28,603
Contributions in relation to the statutorily required contribution	(\$24,281)	(\$32,182)	(\$33,362)	(\$30,950)	(\$28,603)
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0
Employer's covered-employee payroll	\$411,651	\$329,664	\$429,564	\$407,159	\$371,364
Contributions as a percentage of covered employee payroll	5.90%	9.76%	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*

	2019	2018
Employer's proportion of the net OPEB liability (asset)	0.030128%	0.039707%
Employer's proportionate share of the net OPEB liability (asset)	\$23,728	\$31,409
Employer's covered-employee payroll	\$329,664	\$429,564
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.20%	7.31%
Plan fiduciary net position as a percentage of the total OPEB liability	61.89%	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*

	2019	2018
Statutorily required contributions	\$3,867	\$5,153
Contributions in relation to the statutorily required contribution	(\$3,867)	(\$5,153)
Contribution deficiency (excess)	\$0	\$0
Employer's covered-employee payroll	\$411,651	\$429,564
Contributions as a percentage of covered employee payroll	0.94%	1.20%

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

Notes to Required Supplementary Information

For the Year Ended June 30, 2019

Changes of assumptions.

Amounts reported in 2019 reflect actuarial assumption changes effective July 1, 2018 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	FY19 Total Budgeted	Expended as of 6/30/19	Balance 6/30/19
Barr Engineering Educational Science Advisor on Water Quality	\$ 29,000		\$ 29,000
Establishment of Water Hemp Tissue Culture Lines for Herbicide Resistance	6,585		6,585
Development of High-Throughput Genetic Test of Identification of Palmer Amaranth and Related Species	33,358		33,358
Reducing SCN with Brown Mustard and Winter Camelina	17,289		17,289
Control Measures for IDC in Soybeans	15,740		15,740
SCN Sampling Program	74,580		74,580
Molecular Characterization and Identification of the New Root-Lesion Nematode Species on Soybean in ND	7,490		7,490
Screening Cover Crops for Managing SCN and Other Nematode Species in Infested Soils	30,480		30,480
Evaluating Soybean Cultivars and Germplasm for Resistance to SCN	34,298		34,298
Control of Soybean Diseases	58,750		58,750
Visual Ratings for IDC	78,162		78,162
Breeding of Improved Non-GMO Cultivars and Germplasm	244,207		244,207
Breeding of Glyphosate Resistant Soybean Cultivars	151,373		151,373
Genetic Engineering of Soybean for Production of DGLA-Enriched Oil	49,000		49,000
Determining Rye Safety to Soybeans with Soil Moisture Status	14,056		14,056
Optimizing Fungicide Application Methods for Management of Sclerotinia in Soybeans	45,052		45,052
Determining Thresholds for Profitable Use of Fungicides to Control White Mold in Soybeans	21,927		21,927
Fall-Seeded Cover Crop Tolerance to Soybean Herbicides	14,700		14,700
Soybean Response to Sulfur and Rye Cover Crop Management Techniques	7,600		7,600
Use of Soybean Hulls in Rations for Dry Lot Beef Cows	31,991		31,991
Managing Salinity with Cover Crops - A Whole System Response	57,962		57,962
Seeding Date and Cultivar Influence on Soybean Performance in Northeastern ND	6,000		6,000
Palmer Amaranth Awareness, Identification and Management	29,448		29,448
Why do Some Soil Practices Make Fields More Resilient to Saline Prone Years	38,166		38,166
Nitrogen Dynamics of Soybeans and Soybean Residues in Long-Term No-Till Production Systems	3,184		3,184
Determining Suitable Planting Date and Soil Temperature for Enhanced Growth and Yield of Soybean	9,700		9,700
Nitrogen Relationships of Soybean in Southwest ND	14,944		14,944
Pyrethroid Resistant Soybean Aphids, Drones for Insect Scouting and Detection of Invasive Gall Midge	40,000		40,000

(continued)

Contract/Grant	FY19 Total Budgeted	Expended as of 6/30/19	Balance 6/30/19
Impact of Drying and Storage Environment on Green and Semi-Green Soybean Varieties	7,801		7,801
Development of Soybean Oil Oleo Gels for Edible Applications	29,510		29,510
SHARE Farm Funding	82,075		82,075
SHARE Farm North: Expanding Soil Health Building Research & Extension Efforts	23,622		23,622
Williston Research Extension Center Seed Conditioning Facility	25,000		25,000
NDSGA Leadership Contract	45,000		45,000
NDSGA Expo Edition Magazine Contract	13,750		13,750
NDSGA Magazine Contract	231,000		231,000
NDSGA Soy Promotion Contract - Employee Vehicle Contract	18,000		18,000
NDSGA Promotion Advertising Agreement	36,000		36,000
NDSGA Legislative Educator Agreement	55,000		55,000
NDSGA Annual Research Report Contract	19,375		19,375
North Central Soybean Research Program	200,000		200,000
Soybean Research and Development Council	129,700		129,700
National Biodiesel Board	110,000		110,000
NDSU Development Foundation	616,000		616,000
Northern Soy Marketing LLC	150,000		150,000
United Soybean Board	250,000		250,000
American Soybean Association	130,800		130,800
	\$ 3,337,675		\$ 3,337,675

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
Assesment 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 Symposium 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
United Soybean Board	630,847		630,847
American Soybean Association	127,700		127,700
	\$ 3,394,081		\$ 3,394,081

Schedule of Activities – Actual and Budget

	Actual	June 30, 2019 Budget	Difference	June 30, 2018 Actual
<u>Revenues</u>				
Assessment revenues collected from 1st Purchasers	\$ 8,207,810	\$ 5,723,900	\$ 2,483,910	\$ 11,135,381
Less:				
Assessment revenue remitted to QSSB's	(320,880)		(320,880)	(380,738)
Assessment revenue remitted to USB	(3,947,383)		(3,947,383)	(5,367,764)
Net assessment revenues	<u>\$ 3,939,547</u>	<u>\$ 5,723,900</u>	<u>\$ (1,784,353)</u>	<u>\$ 5,386,879</u>
Interest income	\$ 80,173		\$ 80,173	\$ 44,674
Miscellaneous revenue	124,350		124,350	89,267
Total revenues	<u>\$ 4,144,070</u>	<u>\$ 5,723,900</u>	<u>\$ (1,579,830)</u>	<u>\$ 5,520,820</u>
<u>Expenditures</u>				
Program expenditures:				
Marketing	\$ 1,720,441	\$ 1,750,000	\$ (29,559)	\$ 1,563,883
Communications	1,131,754	1,150,000	(18,246)	1,204,827
Research	1,573,678	2,150,000	(576,322)	1,788,438
Total program expenditures	<u>\$ 4,425,873</u>	<u>\$ 5,050,000</u>	<u>\$ (624,127)</u>	<u>\$ 4,557,148</u>
Administration	\$ 1,042,358	\$ 1,350,000	\$ (307,642)	\$ 1,130,072
Total expenditures	<u>\$ 5,468,231</u>	<u>\$ 6,400,000</u>	<u>\$ (931,769)</u>	<u>\$ 5,687,220</u>
Increase (Decrease) in Fund Balance	<u>\$ (1,324,161)</u>	<u>\$ (676,100)</u>		<u>\$ (166,400)</u>



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
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Exhibits

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, 2019 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 October 16, 2019.

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 opinion 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 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 and therefore, material weaknesses or significant

deficiencies may exist that have not been identified. 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 19-1 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying *Schedule of Findings, Recommendations and Management's Response* as finding 19-2.

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.

North Dakota Soybean Council's Response to Findings

North Dakota Soybean Council's response to the findings identified in our audit, are described in the accompanying *Schedule of Findings, Recommendations and Management's Response*. The North Dakota Soybean Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
October 16, 2019

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?

Except for our finding 19-2 on page 31 surrounding state procurement guidelines not being followed, the Council was in compliance with statutes, laws, rules and regulations.

3. Was internal control adequate and functioning effectively?

Except for the finding 19-1 on page 31 surrounding the preparation of the financial statements, we found internal control was adequate and functioning effectively.

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 was one finding in the prior report surrounding preparation of financial statements and the issue still exists as the Council is not staffed with personnel fully knowledgeable of GAAP. Management of the Council agreed with the recommendation and is aware of the risk involved with the State Auditor's Office preparing their financial statements and note disclosures.

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

No.

LAFRC Audit Communications

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

None noted.

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

None.

3. *Identify any significant audit adjustments.*

There were three audit adjustments to properly show marketing expenditures in the proper fiscal year and to accrue payroll. See detail on page 33.

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 19-1)

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, 2019 and June 30, 2018, the financial statements and note disclosures were prepared by the State Auditor's Office.

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.

NONCOMPLIANCE SURROUNDING PROCUREMENT (Finding 19-2)

Condition:

We noted the following issues surrounding procurement:

- A contract was entered into for renting out a venue without properly soliciting informal quotes/bids or proposals from at least three vendors (\$31,763);
- A contract was entered for revising, editing and redesigning the review process for board, staff and the Executive Director without properly soliciting informal quotes/bids or proposals from at least three vendors (\$10,000); and
- A contract was entered into for expo media production services without properly soliciting informal quotes/bids or proposals from at least three vendors (\$12,584).

Criteria:

North Dakota OMB State Procurement level 2 Small Purchases requirements states in part, for purchases at least \$10,000 but less than \$50,000, agencies should solicit informal quotes/bids or proposals from at least three vendors, or post to SPO Online with appropriate state bidders list. If three bids or proposals are not received, written justification (Alternative Procurement Form) should be provided.

Effect:

There was non-compliance with the North Dakota OMB State Procurement level 2 Small Purchase requirements.

Cause:

There's a misunderstanding of the procurement guidelines surrounding informal bids/quotes 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. We have two employees who also make many of the NDSC purchases who are Level II certified. This will help ensure that procurement guidelines are followed consistently throughout the year.

Governance Communication

October 16, 2019

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, 2019 and 2018, and have issued our report thereon dated October 16, 2019. 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 August 6, 2019. 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.

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. The schedule below lists all misstatements detected as a result of audit procedures that were corrected by management.

Audit Adjustments

Fund Balance - Prior period adj	\$	33,632	
Marketing Expenditures			\$ 33,632
Administration Expenditures	\$	53,726	
Accrued Payroll			\$ 53,726
Marketing Expenditures	\$	27,918	
Accounts Payable			\$ 27,918

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 October 16, 2019.

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.

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,



Robyn Hoffmann, CPA
Audit Manager

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