

NORTH DAKOTA SOYBEAN COUNCIL
FARGO, NORTH DAKOTA

Audit Report

For the Fiscal Year Ending
June 30, 2012 and June 30, 2011

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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

Independent Auditor's Report

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Diana Beitelspacher, Chief Executive Officer

We have audited the accompanying financial statements of the Soybean Council Fund of the North Dakota Soybean Council, a department of the state of North Dakota as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the North Dakota Soybean Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Soybean Council Fund and do not purport to, and do not present fairly the financial position of the state of North Dakota as of June 30, 2012 and 2011, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Soybean Council Fund of the North Dakota Soybean Council as of June 30, 2012 and 2011, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2012 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted 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 Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Soybean Council Fund's financial statements. The Schedule of Contracts/Grants in Process and Schedule of Activities – Actual and Budget are presented for purposes of additional analysis and are not a required part of the financial statements. Such information 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. The 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 are fairly stated in all material respects in relation to the financial statements as a whole



Robert R. Peterson
State Auditor

September 11, 2012



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600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

***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***

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Diana Beitelspacher, Chief Executive Officer

We have audited the financial statements of the Soybean Council Fund of the North Dakota Soybean Council as of and for the fiscal year ended June 30, 2012, which comprise the North Dakota Soybean Council's financial statements and have issued our report thereon dated September 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the North Dakota Soybean Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the North Dakota Soybean Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Soybean Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Soybean Council's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Soybean Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and the Soybean Promotion and Research Order (the "Order") relative to the use and investment of funds collected by the North Dakota Soybean Council and with terms described in Sections 1220.228(a) and 1220.211(j) of the Order relative to prohibited uses of funds collected by the North Dakota Soybean Council, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

In connection with our audit, nothing came to our attention that caused us to believe 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.

We noted certain matters that we reported to management of the North Dakota Soybean Council in a separate letter dated September 11, 2012 included in this report under Governance Communication.

This report is intended solely for the information and use of management, the North Dakota Soybean Council's Board of Directors, others within the entity, the Governor, and the Legislative Audit and Fiscal Review Committee, and is not intended to be and should not be used by anyone other than these specified parties.



Robert R. Peterson
State Auditor

September 11, 2012

Financial Statements

Balance Sheet

June 30, 2012 and 2011

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 3,966,573	\$ 3,196,697
Investments	1,599,700	1,010,000
Assessments receivable	990,443	546,996
Accounts receivable	3,226	7,878
Interest receivable	730	762
Total assets	<u>\$ 6,560,672</u>	<u>\$ 4,762,333</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 483,953	\$ 235,675
Accrued payroll	32,024	25,572
Due to other state agencies	1,234	857
Due to the United Soybean Board	453,319	381,140
Due to Other Qualified State Soybean Boards	82,907	59,762
Total liabilities	<u>\$ 1,053,437</u>	<u>\$ 703,006</u>
Fund Balance:		
Restricted	<u>5,507,235</u>	<u>4,059,327</u>
Total fund balance	<u>\$ 5,507,235</u>	<u>\$ 4,059,327</u>
Total liabilities and fund balance	<u>\$ 6,560,672</u>	<u>\$ 4,762,333</u>

See Notes to the Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Fiscal Years Ended June 30, 2012 and 2011

	<u>Governmental Funds</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Revenues</u>		
Assessment revenues collected from 1st Purchasers	\$ 8,027,028	\$ 7,692,166
Less:		
Assessment revenue remitted to Qualified State Soybean Boards	(399,127)	(300,060)
Assessment revenue remitted to United Soybean Board	(3,622,789)	(3,507,822)
Net assessment revenues	<u>\$ 4,005,112</u>	<u>\$ 3,884,284</u>
Grants	29,213	45,787
Interest income	14,430	22,797
Miscellaneous revenue	15,387	32,647
Total revenues	<u>\$ 4,064,142</u>	<u>\$ 3,985,515</u>
<u>Expenditures</u>		
Program expenditures:		
International marketing	\$ 407,702	\$ 401,826
Consumer information	119,059	121,128
Domestic marketing	257,649	316,961
Producer communications	435,931	394,191
Research	1,184,921	1,845,475
Total program expenditures	<u>\$ 2,405,262</u>	<u>\$ 3,079,581</u>
Administration	<u>\$ 210,972</u>	<u>\$ 386,704</u>
Total expenditures	<u>\$ 2,616,234</u>	<u>\$ 3,466,285</u>
Revenues over expenditures	<u>\$ 1,447,908</u>	<u>\$ 519,230</u>
Fund Balance, Beginning of Year	<u>\$ 4,059,327</u>	<u>\$ 3,540,097</u>
Fund Balance, End of Year	<u><u>\$ 5,507,235</u></u>	<u><u>\$ 4,059,327</u></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 of the North Dakota Soybean Council.

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, accounts receivable, 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 are 5 years.

J. Compensated Absences

Annual and sick leave are a part of permanent employees' compensation as set forth in section 54-06-04 of the North Dakota Century Code. In general, accrued annual leave cannot exceed 30 days at April 30, while accrued sick leave is not limited. Employees are entitled to earn leave based on tenure of employment, within a range from a minimum of one working day, to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or retirement, per section 54-06-14 of the North Dakota Century Code. Employees vest in sick leave at ten years of credible service, at which time the employer is liable for 10% of the accumulated unused sick leave.

K. 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. The North Dakota Soybean

Council's fund balance is restricted by enabling legislation contained in the North Dakota Century Code Chapter 4.1-11 to be spent only pursuant to that Chapter.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

The carrying amount of deposits was \$3,966,573 and \$3,196,697 at June 30, 2012 and 2011, respectively. All deposits are exposed to custodial credit risk because they are not covered by depository insurance and the deposits are uncollateralized. All of the Council's deposits are at the Bank of North Dakota. Deposits with the Bank of North Dakota are considered uninsured; however, these investments are guaranteed by the state of North Dakota (NDCC Chapter 6-09-10).

B. Investments

All investments must be short-term (one year or less), risk free (federally insured or fully collateralized), and interest bearing. The fair value of investments was \$1,599,700 and \$1,010,000 at June 30, 2012 and 2011, respectively. All investments were certificates of deposit insured by the U.S. government. NDCC 4-24-09 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 eighty percent 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, 2012 and 2011:

	Balance 7/1/11	Additions	Deletions	Transfers	Balance 6/30/12
Capital assets, depreciable					
Equipment	\$ 93,147		\$ 12,526		\$ 105,673
Intangible assets	12,210				12,210
Total capital assets, depreciable	<u>\$ 105,357</u>		<u>\$ 12,526</u>		<u>\$ 117,883</u>
Less accumulated depreciation					
Equipment	\$ 64,159	\$ 5,507	\$ 12,526		\$ 82,192
Intangible assets		2,422			2,422
Total accumulated depreciation	<u>\$ 64,159</u>	<u>\$ 5,507</u>	<u>\$ 12,526</u>		<u>\$ 84,614</u>
Total capital assets, depreciable, net	<u>\$ 41,198</u>	<u>\$ (5,507)</u>	<u>\$ -</u>		<u>\$ 33,269</u>

	Balance 7/1/10	Additions	Deletions	Transfers	Balance 6/30/11
Capital assets, depreciable					
Equipment	\$ 100,739		\$ (7,592)		\$ 93,147
Intangible assets		\$ 12,210			12,210
Total capital assets, depreciable	\$ 100,739	\$ 12,210	\$ (7,592)		\$105,357
Less accumulated depreciation					
Equipment	\$ 64,859	\$ 6,133	\$ (6,833)		\$ 64,159
Total accumulated depreciation	\$ 64,859	\$ 6,133	\$ (6,833)		\$ 64,159
Total capital assets, depreciable, net	\$ 35,880	\$ 6,077	\$ (759)	\$ -	\$ 41,198

NOTE 4 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the fiscal years ended June 30, 2012 and 2011 is presented as follows:

	Balance 7/1/11	Additions	Reductions	Balance 6/30/12	Current Portion
Leases Payable	\$ 89		\$ (89)		
Compensated Absences	21,168	\$ 17,292	(15,349)	\$ 23,111	\$ 1,181
Total	\$ 21,257	\$ 17,292	\$ (15,438)	\$ 23,111	\$ 1,181

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

NOTE 5 - LEASE OBLIGATIONS

A. Capital lease

The Council had one capital lease, for a copier, that ended during fiscal year 2012. Principal and interest expenditures were \$0 and \$0, respectively for fiscal year ended June 30, 2012, and \$4,710 and \$0 respectively for the fiscal year ended June 30, 2011.

Operating leases

The Council has two operating leases; for the rent of office space, and for a copier. Expenditures for operating leases were \$25,347 and \$25,068, respectively for the fiscal years

ended June 30, 2012 and 2011. Debt service requirements to maturity for operating lease obligations at June 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2013	\$ 17,968
2014	3,345
2015	3,345
2016	3,067
Total	<u>\$ 27,725</u>

NOTE 6 - PENSION AND POST-RETIREMENT PLANS/BENEFITS

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

A. Description of Pension Plan

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

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

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

B. Pension Plan Funding Policy

NDPERS is funded by employee contributions (set by statute) of 4% of regular compensation. During the 1983-1985 biennium the state implemented the employer pickup provision of the IRS code whereby a portion or all of the required employee contributions are made by the employer. The state is paying the full employee contribution. Employer contributions of 4.12% of covered compensation are set by statute. The required

contributions are determined using an entry age normal actuarial funding method. Employees participating in the retirement plan, as part-time/temporary members are required to contribute 8.12% of their covered compensation.

C. State Group Health Plan

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

The North Dakota Retirement Board was created by the state legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. The Council's required and actual contributions to NDPERS for the fiscal years ending June 30, 2012, 2011, and 2010 were \$23,115, \$23,021, and \$21,665, respectively.

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

NOTE 7 - RISK MANAGEMENT

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

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the university system. All state agencies participate in the RMF and their fund contribution is determined using a projected cost allocation approach. The statutory liability of the state is limited to a total of \$250,000 per person, and \$1,000,000 per occurrence.

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

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

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

NOTE 8 - RELATED PARTIES

As noted in Note 1 of these financial statements, the Council is an agency of the state of North Dakota; as such, other agencies of the state are related parties. The Council made payments to North Dakota State University, North Dakota State University Development Foundation, Northern Crops Institute, and the University of North Dakota of \$933,534 and during fiscal year 2012, and \$1,710,450 during fiscal year 2011. All payments were for research contracts except payments to the North Dakota State University Development Foundation were for scholarships. 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 \$119,684 and \$136,188 during fiscal years 2012 and 2011, respectively. Effective September 6, 1996, the Council as Lessor leased a soybean combine (with a cost of \$80,621) to North Dakota State University as Lessee for one year. The lease is automatically extended for one year periods unless either party terminates the lease agreement. The lease payments are zero. The combine is to be used only within the soybean breeding program, with the Lessee providing insurance coverage and storage.

NOTE 9 - COMMITMENTS

The Council had approved research contracts with North Dakota State University for \$357,700 and \$0, respectively at June 30, 2012 and 2011.

Supplementary Information

Schedule of Contracts/Grants in Process

Contract/Grant	Total Budgeted	Total Expended as of 6/30/12	Remaining Balance as of 6/30/12
Breeding for GR Soybean Cultivars	\$ 525,000	\$ 167,300	\$ 357,700

Contract/Grant	Total Budgeted	Total Expended as of 6/30/11	Remaining Balance as of 6/30/11
None			

Schedule of Activities – Actual and Budget

	June 30, 2012		Difference	June 30, 2011
	Actual	Budget		Actual
<u>Revenues</u>				
Assessment revenues collected from 1st Purchasers	\$ 8,027,028		\$ 8,027,028	\$ 7,692,166
Less:				
Assessment revenue remitted to QSSB's	(399,127)		(399,127)	(300,060)
Assessment revenue remitted to USB	(3,622,789)		(3,622,789)	(3,507,822)
Net assessment revenues	<u>\$ 4,005,112</u>		<u>\$ 4,005,112</u>	<u>\$ 3,884,284</u>
Grants	\$ 29,213		\$ 29,213	\$ 45,787
Interest income	14,430		14,430	22,797
Miscellaneous revenue	15,387		15,387	32,647
Total revenues	<u>\$ 4,064,142</u>		<u>\$ 4,064,142</u>	<u>\$ 3,985,515</u>
<u>Expenditures</u>				
Program expenditures:				
International marketing	\$ 407,702	\$ 1,045,222	\$ (637,520)	\$ 401,826
Consumer information	119,059	149,045	(29,986)	121,128
Domestic marketing	257,649	363,407	(105,758)	316,961
Producer communications	435,931	595,071	(159,140)	394,191
Research	1,184,921	1,211,531	(26,610)	1,845,475
Total program expenditures	<u>\$ 2,405,262</u>	<u>\$ 3,364,276</u>	<u>\$ (959,014)</u>	<u>\$ 3,079,581</u>
Administration	\$ 210,972	\$ 447,467	\$ (236,495)	\$ 386,704
Total expenditures	<u>\$ 2,616,234</u>	<u>\$ 3,811,743</u>	<u>\$ (1,195,509)</u>	<u>\$ 3,466,285</u>
Increase (Decrease) in Fund Balance	<u>\$ 1,447,908</u>	<u>\$ (3,811,743)</u>		<u>\$ 519,230</u>

Note: Fiscal Year 2012 is the first year this schedule is being presented.

Responses to LAFRC Audit Questions

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

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

Unqualified.

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

Yes.

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

Yes.

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

No.

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

Yes, all findings from the prior audit were implemented.

- 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 18 of this report contains three informal recommendations related to the accounting system, support for expenditures, and the use of a lockbox for collections. Management of the Council agreed with and either has or plans on implementing all the recommendations except for the lockbox usage. For additional commentary and management response see Informal #3 starting on page 20.

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

Governance Communication

September 11, 2012

Legislative Audit and Fiscal Review Committee

North Dakota Soybean Council Board of Directors

We have audited the financial statements of the governmental activities and major fund of the North Dakota Soybean Council for the year ended June 30, 2012, and have issued our report thereon dated September 11, 2012. 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. 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 11, 2012.

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.

The following presents our informal recommendations:

Great Plains Accounting System (Informal #1)

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

Time is unnecessarily spent double entering all accounting entries into both systems and ensuring that they reconcile. Part of management's responsibility is to ensure the Council operates efficiently and effectively. To operate effectively and efficiently, one computer system should be maintained and reports should be customized in PeopleSoft.

Recommendation:

We recommend the Soybean Council:

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

North Dakota Soybean Council's Response:

The ND Soybean Council agrees to investigate the financial reporting options available through PeopleSoft. Our Board of Directors was not satisfied with the format and readability of the financial reports generated through PeopleSoft in past years, and thus the decision was made to contract with Great Plains Financial a number of years ago. One of our employees will be attending payroll and PeopleSoft training in Bismarck in October and will describe the type of financial reporting required by the Council. If the Council is satisfied with the quality and readability of the financial reports PeopleSoft is able to generate, it will consider maintaining one system – PeopleSoft - when its contract with Great Plains Financial has expired.

Expenditures and Proper Support (Informal #2)

We noted 2 out of 15 expenditures in the test of purchase card expenditures (\$147.83) that were for meals. We were unable to determine who these meals were for because there was no listing of who attended. Also, the one expenditure only had the summary credit card receipt attached to it for support instead of the detailed receipt.

In our test of expenditures, we noted 1 item out of 32 that was for box lunches for a trade team lunch. There was no listing of who attended this meal, so we were unable to determine who the meal was purchased for and the business purpose.

To ensure that expenditures are only made for valid business related purposes, good internal controls require maintaining adequate supporting documentation attached to the voucher.

In addition, OMB Policy 300 - Purchasing Card states the purchasing card can be used for all reimbursable travel expenses except meals.

Recommendation:

We recommend:

- the purchase card is not used for meals;
- all expenses include detailed support evidencing business purpose and if for meals, who is in attendance before payment is made.

North Dakota Soybean Council's Response:

The ND Soybean Council agrees that the purchase card is not to be used for meals and will continue to remind employees about this requirement. Three existing employees have taken the online P-Card training and our two new employees will be taking this training in the near future.

The Council agrees that it is important to maintain appropriate documentation as to who meals are being purchased for and the business purpose. The Council has maintained documentation of all meeting attendees at Board meetings and will be sure to do the same when sponsoring meals for international trade teams and other group meetings.

Lockbox Usage (Informal #3)

Because of its small size, it is not feasible for the Soybean Council to have adequate segregation of duties surrounding the cash receipting process.

There is an increased potential for fraud to occur when there is not good segregation of duties surrounding cash collections.

Per the Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring, and verification methods are necessary to ensure objectives are effectively achieved.

The United Soybean Board policy on internal control over cash receipts states: "USB and QSSBs have added control by using bank lockbox services whereby receipts are sent to a box

for the Board [Council] and opened and deposited directly by bank employees with copies of daily deposit information sent to the Board [Council] office."

Recommendation:

We recommend the Soybean Council:

- properly segregate cash receipting to provide proper segregation of duties, or
- use a lockbox service for their quarterly assessments in order to have better controls over the cash collection function.

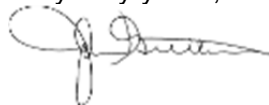
North Dakota Soybean Council's Response:

The ND Soybean Council respectfully disagrees. The Council has not used a lockbox service for its quarterly assessments because it is our opinion that the service is neither efficient, nor productive and opens the door to checks being lost in the mail or misplaced. The Council does have a segregation of duties in terms of who receives and records the checks and who deposits them. The CEO opens the mail and logs every check received into a log book. The checks are then given to our Budget Manager for deposit. The CEO reviews the monthly deposits and reconciles those against the log book.

It should be noted, however, that the Council is part of a national work group (facilitated by the United Soybean Board) that is exploring the feasibility of developing and implementing an electronic remittance program that will enable first purchasers to submit their payments electronically. In North Dakota, the remittances would be electronically sent to the Bank of North Dakota. The goal of this project is to simplify and bring consistency around the first purchaser remittance process on a national level. It is hoped that the new process will be implemented within the next year.

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

Very truly yours,



John Grettum, CPA
Audit Manager

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