

NORTH DAKOTA SOYBEAN COUNCIL
FARGO, NORTH DAKOTA

Audit Report

For the Fiscal Year Ending
June 30, 2013 and June 30, 2012

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the North Dakota Soybean Council, a department of the state of North Dakota, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the department's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the North Dakota Soybean Council, as of June 30, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 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 opinions on the financial statements that comprise the North Dakota Soybean Council 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.

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 are 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 August 22, 2013 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.



Robert R. Peterson
State Auditor

Fargo, ND

August 22, 2013



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

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

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Diana Beitelspacher, Chief Executive Officer

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 governmental activities of the North Dakota Soybean Council, as of and for the year ended June 30, 2013 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 August 22, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Soybean Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and the Soybean Promotion, Research and Consumer Information Act of 1990 and the Soybean Promotion and Research Order (the "Order") relative to the use and investment of funds collected by the North Dakota Soybean Council and with terms described in Sections 1220.228(a) and 1220.211(j) of the Order relative to prohibited uses of funds collected by the North Dakota Soybean Council, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.



Robert R. Peterson
State Auditor

Fargo, ND

August 22, 2013

Financial Statements

Balance Sheet

	Governmental Funds	
	June 30, 2013	June 30, 2012
<u>Assets</u>		
Cash and cash equivalents	\$ 7,340,173	\$ 3,966,573
Investments	1,558,300	1,599,700
Assessments receivable	565,093	990,443
Accounts receivable	9,318	3,226
Interest receivable	578	730
Total assets	<u>\$ 9,473,462</u>	<u>\$ 6,560,672</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 374,808	\$ 483,953
Accrued payroll	38,396	32,024
Due to other state agencies	837	1,234
Due to the United Soybean Board	598,556	453,319
Due to Other Qualified State Soybean Boards	97,235	82,907
Total liabilities	<u>\$ 1,109,832</u>	<u>\$ 1,053,437</u>
Fund Balance:		
Restricted	<u>8,363,630</u>	<u>5,507,235</u>
Total fund balance	<u>\$ 8,363,630</u>	<u>\$ 5,507,235</u>
Total liabilities and fund balance	<u>\$ 9,473,462</u>	<u>\$ 6,560,672</u>

See Notes to the Financial Statements.

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Fiscal Years Ended June 30, 2013 and 2012

	<u>Governmental Funds</u>	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<u>Revenues</u>		
Assessment revenues collected from 1st Purchasers	\$ 12,245,757	\$ 8,027,028
Less:		
Assessment revenue remitted to Qualified State Soybean Boards	(465,394)	(399,127)
Assessment revenue remitted to United Soybean Board	<u>(5,656,042)</u>	<u>(3,622,789)</u>
Net assessment revenues	\$ 6,124,321	\$ 4,005,112
Grants		29,213
Interest income	11,395	14,430
Miscellaneous revenue	33,008	15,387
Total revenues	<u>\$ 6,168,724</u>	<u>\$ 4,064,142</u>
 <u>Expenditures</u>		
Program expenditures:		
International marketing	\$ 620,740	\$ 435,617
Consumer information	240,121	105,102
Domestic marketing	327,462	247,180
Producer communications	518,749	432,442
Research	<u>1,367,324</u>	<u>1,167,474</u>
Total program expenditures	\$ 3,074,396	\$ 2,387,815
Administration	\$ 237,933	\$ 228,419
Total expenditures	<u>\$ 3,312,329</u>	<u>\$ 2,616,234</u>
Revenues over expenditures	<u>\$ 2,856,395</u>	<u>\$ 1,447,908</u>
Fund Balance, Beginning of Year	<u>\$ 5,507,235</u>	<u>\$ 4,059,327</u>
Fund Balance, End of Year	<u><u>\$ 8,363,630</u></u>	<u><u>\$ 5,507,235</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 in the operations program.

B. Reporting Structure

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

C. Fund Financial Statements

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

D. Fund Accounting Structure

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

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

E. Basis for Accounting

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; generally when they are both

measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 30 days of year end. The revenues that are determined to be susceptible to accrual are soybean assessments and interest.

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

F. Cash and Cash Equivalents

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

G. Investments

Investments include certificates of deposit that are reported at cost.

H. Receivables

Receivables include assessments receivable on soybeans, 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 is 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.

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 \$7,340,173 and \$3,966,573 at June 30, 2013 and 2012, 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 \$1,558,300 and \$1,599,700 at June 30, 2013 and 2012, 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, 2013 and 2012. The adjustment column is to correct the prior year's schedule for math error:

	Balance 7/1/12	Additions	Deletions	Adjustments	Balance 6/30/13
Capital assets, depreciable					
Equipment	\$ 105,673	\$ 36,295		\$ (25,052)	\$ 116,916
Intangible assets	12,210				12,210
Total capital assets, depreciable	<u>\$ 117,883</u>	<u>\$ 36,295</u>		<u>\$ (25,052)</u>	<u>\$ 129,126</u>
Less accumulated depreciation					
Equipment	\$ 82,192	\$ 4,172		\$ (25,052)	\$ 61,312
Intangible assets	2,422	2,442		20	4,884
Total accumulated depreciation	<u>\$ 84,614</u>	<u>\$ 4,172</u>		<u>\$ (25,052)</u>	<u>\$ 66,196</u>
Total capital assets, depreciable, net	<u>\$ 33,269</u>	<u>\$ 32,123</u>			<u>\$ 62,930</u>

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

NOTE 4 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the fiscal years ended June 30, 2013 and 2012 is presented as follows:

	Balance 7/1/12	Additions	Reductions	Balance 6/30/13	Current Portion
Compensated Absences	\$ 23,111	\$ 25,893	\$ (13,404)	\$ 35,600	\$ 1,819
Total	\$ 23,111	\$ 25,893	\$ (13,404)	\$ 35,600	\$ 1,819

	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

NOTE 5 - LEASE OBLIGATIONS

Operating leases

The Council has two operating leases, for the rent of office space and for a copier. Expenditures for operating leases were \$38,449 and \$25,347, respectively for the fiscal years ended June 30, 2013 and 2012. Debt service requirements to maturity for operating lease obligations at June 30, 2013 are as follows:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2014	71,055
2015	37,200
2016	3,067
Total	<u>\$ 111,322</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% (effective through December 31, 2011), 5% (effective January 1, 2012), and 6% (effective January 1, 2013) 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 4% of the full employee contribution. Employer contributions of 4.12% (effective through December 31, 2011), 5.12% (effective January 1, 2012), and 6.12% (effective January 1, 2013) of covered compensation are set by statute. The required contributions are determined using an entry age normal actuarial funding method.

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, 2013, 2012, and 2011 were \$32,363, \$23,115, and \$23,021, respectively.

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

NOTE 7 - RISK MANAGEMENT

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

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

The Council also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover for loss to business personal property, up to a limit of \$100,000. Replacement cost coverage is provided by estimating the replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$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 8 - RELATED PARTIES

As noted in note one of these financial statements, the Council is an agency of the state of North Dakota; as such, other agencies of the state are related parties. The Council made payments to North Dakota State University, North Dakota State University Development Foundation and the Northern Crops Institute of \$1,160,479 during fiscal year 2013 and \$933,534 during fiscal year 2012. 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 \$161,359 and \$119,684 during fiscal years 2013 and 2012, respectively.

Beginning in fiscal year 2013, the Council began a close working relationship and contracted with the following entities for additional research or education programs: the North Central Soybean Research Program for \$150,000, the National Biodiesel Board for \$50,000, the World Initiative for Soy in Human Health for \$125,000, the United Soybean Export Council \$10,439, and the Soy Transportation Coalition for \$50,000.

Effective September 6, 1996, the Council as Lessor leased a soybean combine (with a cost of \$80,621) to North Dakota State University as Lessee for one year. The lease is automatically extended for one year periods unless either party terminates the lease agreement. The lease payments are zero. The combine is to be used only within the soybean breeding program, with the Lessee providing insurance coverage and storage.

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

NOTE 9 - COMMITMENTS

The Council had approved research contracts with North Dakota State University for \$1,537,998 and \$357,700 and approved promotional contracts with the North Dakota Soybean Growers Association for \$198,000 and \$0, respectively at June 30, 2013 and 2012.

Supplementary Information

Schedule of Contracts/Grants in Process

Contract/Grant	Total Budgeted	Expended as of 6/30/13	Balance as of 6/30/13
Impact of Tillage System & Previous Crop on Root Rots & Soybean Performance	\$ 6,850		\$ 6,850
Increasing Awareness & Management of Nematodes in ND	11,390		11,390
Virulent Types of SCN in ND	9,600		9,600
Novel Soy Based Resin for Wood Composite Industry	30,900		30,900
CCSP Soybean Plots	34,984		34,984
Comparing Available Iron Fertilizers to Manage Soybean IDC	8,400		8,400
Soybean Responses to Conservation Tillage Practices Under Tile Drained Conditions	14,940		14,940
Soybean Response to Nitrogen Fertilizer Management Under Tile Drained Conditions	8,463		8,463
Scale-up of Novel Soybean Basis Materials Developed at NDSU	150,000		150,000
Impact of Selected Establishment Factors & Foliar Fungicide on Soybean Production	15,200		15,200
Control of Measures for IDC in Soybean	10,667		10,667
Managing Current & Emerging Soybean Insect Pests in ND	127,235		127,235
Breeding of Glyphosate Resistant Soybean Cultivars	183,000		183,000
Visual Ratings for IDC	57,500		57,500
Variety Testing & Breeding of Non GMO Cultivars	260,000		260,000
Mass Production of Soy Protein Nanofiber Mats Towards Industrial Production & Evaluation	39,282		39,282
Soybean Response to Nitrogen Inputs Under Tile Drained Conditions	9,050		9,050
Soybean Productivity on Raised Seedbeds	9,390		9,390
Field Demo of Different Insecticide Strategies for Management of Soybean Aphid	16,000		16,000
Control of Soybean Diseases	50,300		50,300
Pythium Seed Decay & Damping Off	19,950		19,950
Optical Crop Sensor Technology Applications to Soybean Production	5,450		5,450
Impact of Weed Management on Soil Anthropods in Soybean Cropping System	17,086		17,086
Evaluation of Effectiveness of Soy-based Polymeric Surfactants in Shampoo Formulations	65,752		65,752
How Soil Salinity Gradients Damage Soybeans, Contribute to Anthropod Pest & Impact Soil Nitrogen	58,213		58,213
Managing Sclerotinia in Soybeans with Contans	30,000		30,000
Optimizing the Use of Row Spacing, Partial Host Resistance, & Fungicides for Management of Sclerotinia	22,875		22,875
Controlling Volunteer Roundup Ready Canola with PRE Herbicides	4,050		4,050
Enhancing Liberty with Adjuvants & the Effect of Spray Quality	6,075		6,075
The Micro-rate System, Addressing Current Issues in Weed Management	31,250		31,250
Development of the NDSU Pest Management App	23,200		23,200
ND Soybean Basis Project	7,500		7,500
Breeding for GR Soybean Cultivars	525,000	\$ 331,554	193,446
NDSGA Leadership Grant	30,000	-	30,000
NDSGA Quarterly Magazine	160,000		160,000
NDSGA Magazine Special Expo Edition	8,000		8,000
Total	\$ 2,067,552	\$ 331,554	\$ 1,735,998

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

Schedule of Activities – Actual and Budget

	June 30, 2013			June 30, 2012
	Actual	Budget	Difference	Actual
<u>Revenues</u>				
Assessment revenues collected from 1st Purchasers	\$ 12,245,757		\$ 12,245,757	\$ 8,027,028
Less:				
Assessment revenue remitted to QSSB's	(465,394)		(465,394)	(399,127)
Assessment revenue remitted to USB	(5,656,042)		(5,656,042)	(3,622,789)
Net assessment revenues	<u>\$ 6,124,321</u>		<u>\$ 6,124,321</u>	<u>\$ 4,005,112</u>
Grants	\$ -		\$ -	\$ 29,213
Interest income	11,395		11,395	14,430
Miscellaneous revenue	33,008		33,008	15,387
Total revenues	<u>\$ 6,168,724</u>		<u>6,168,724</u>	<u>\$ 4,064,142</u>
<u>Expenditures</u>				
Program expenditures:				
International marketing	\$ 620,740	\$ 853,741	\$ (233,001)	\$ 407,702
Consumer information	240,121	326,561	(86,440)	119,059
Domestic marketing	327,462	446,475	(119,013)	257,649
Producer communications	518,749	662,336	(143,587)	435,931
Research	1,367,324	1,456,975	(89,651)	1,184,921
Total program expenditures	<u>\$ 3,074,396</u>	<u>\$ 3,746,088</u>	<u>\$ (671,692)</u>	<u>\$ 2,405,262</u>
Administration	<u>\$ 237,933</u>	<u>\$ 245,891</u>	<u>\$ (7,958)</u>	<u>\$ 210,972</u>
Total expenditures	<u>\$ 3,312,329</u>	<u>\$ 3,991,979</u>	<u>\$ (679,650)</u>	<u>\$ 2,616,234</u>
Increase (Decrease) in Fund Balance	<u>\$ 2,856,395</u>	<u>\$ (3,991,979)</u>		<u>\$ 1,447,908</u>

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.

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 19 of this report contains one informal recommendations related to expenditures and purchase card procedures. Management of the Council agreed with and plans on implementing the recommendation.

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

August 22, 2013

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, 2013, and have issued our report thereon dated August 22, 2013. 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 August 22, 2013.

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:

Purchase Card and Expenditure Issues (Informal #1)

Condition:

In our test of 15 purchase card transactions, we noted 6 purchases were coded to office supplies (536015) that should have been coded to groceries (533030); also those 6 items did not have any explanation for the expense. We noted a separate item had a \$6.40 unknown charge on an out-of-state lodging receipt.

In our test of 32 expenditures, one purchase was for flowers and another purchase included grocery expenditures that did not have an explanation for the expense to provide support as to the business/public purpose of the expense.

The tractor that was purchased was coded to Lease/Purchase - Equipment (account 581050), but the tractor was not a lease. When purchasing farm equipment, the account code - Other equipment over \$5,000 (account 691035) should be used.

Effect:

If coding is not correct, expenses may not be properly categorized.

Without an explanation for grocery expense, we could not determine if the purchase was reasonable or allowable.

An unknown charge could be an unallowable expense.

Cause:

Client was not aware of the problems.

Criteria:

Good internal controls require proper coding and support as to the business/public purpose of transactions.

OMB policy 515 states that coffee and soft drinks for state employees during staff meetings are not allowed, however they are allowed when the meeting includes the general public, interested parties, consultants, etc.

NDCC 44-08-04 allows out of state lodging at the actual expense, this does not include food or beverages.

Expenditures for flowers are not considered an allowable promotional expense.

Recommendation:

We recommend the Soybean Council

- Code expenditures for groceries to 533030 and add an explanation for the expense;
- Add explanations for all miscellaneous charges added to lodging receipts;
- Do not purchase flowers; and
- Properly code equipment expenditures in the future.

North Dakota Soybean Council's Response:

We agree with the recommendations described above and will take the following action moving forward:

- *Expenditures for groceries will be coded to the correct account and include an explanation on the receipt.*
- *An explanation for miscellaneous charges added to lodging receipts will be documented.*
- *We will work to ensure that equipment expenditures are properly coded.*

The Council respectfully disagrees with the following recommendation:

- *Flowers should not be purchased.*

The Council Board of Directors strongly believes that sending flowers to an employee, Director or a constituent with whom the Council closely works (e.g. North Dakota United Soybean Board representative) is very important in the cases of a marriage, birth, death, or hospitalization. Board members believe that sending flowers in these cases is warranted to maintain positive public relations and to convey a feeling of support and caring. The Board believes this is an appropriate use of Council funds and has directed Council staff to continue sending flowers at the Council's expense for the reasons noted above.

Auditors Concluding Remarks:

The Soybean Council receives funds that carry with them fiduciary responsibilities. These responsibilities require that funds only be used for ordinary, reasonable, and actual business-related expenses incurred in furtherance of the Council's missions. When the Council fails to provide supporting documentation evidencing business purpose of expenses, it can result in inappropriate charges going undetected. Evidence of lack of documented business purpose or failure to detect inappropriate charges could lead to penalties, and a loss of the public trust which could have a serious impact on future funding.

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

Very truly yours,

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

Mary Feltman, CPA
In-Charge Auditor

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

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