

CLIENT CODE 611

NORTH DAKOTA
SOYBEAN COUNCIL
FARGO, NORTH DAKOTA

Audit Report

For the Fiscal Years Ending
June 30, 2014 and June 30, 2013

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 North Dakota Soybean Council Operating Fund of the state of North Dakota, as of and for the years ended June 30, 2014 and 2013 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 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 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 North Dakota Soybean Council Operating Fund as of June 30, 2014 and 2013 and the change in financial position for the years 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 North Dakota 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, 2014 or 2013 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

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

Other Information

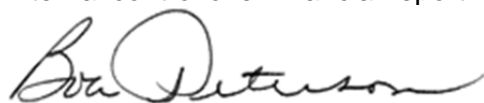
Our audit was conducted for the purpose of forming an opinion on the North Dakota Soybean Council Operating Fund's financial statements. The Schedule of Contracts/Grants in Process and Schedule of Activities – Actual and Budget are presented for the purposes of additional analysis and are not a required 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 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 September 9, 2014 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, North Dakota

September 9, 2014



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

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

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Soybean Council

Diana Beitelspacher, 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 North Dakota Soybean Council Operating Fund, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise North Dakota Soybean Council's financial statements, and have issued our report thereon dated September 9, 2014.

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

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

Purpose of this Report

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



Robert R. Peterson
State Auditor

September 9, 2014

Financial Statements

Balance Sheet

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 9,361,655	\$ 7,340,173
Investments	1,558,300	1,558,300
Assessments receivable	210,605	565,093
Accounts receivable		9,318
Interest receivable	526	578
Total assets	<u>\$ 11,131,086</u>	<u>\$ 9,473,462</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 657,005	\$ 374,808
Accrued payroll	374,346	38,396
Due to other state agencies	706	837
Due to the United Soybean Board	44,806	598,556
Due to Other Qualified State Soybean Boards	60,708	97,235
Total liabilities	<u>\$ 1,137,571</u>	<u>\$ 1,109,832</u>
 Fund Balance:		
Restricted	<u>9,993,515</u>	<u>8,363,630</u>
Total fund balance	<u>\$ 9,993,515</u>	<u>\$ 8,363,630</u>
Total liabilities and fund balance	<u>\$ 11,131,086</u>	<u>\$ 9,473,462</u>

See Notes to the Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Fiscal Years Ended June 30, 2014 and 2013

	Governmental Funds	
	June 30, 2014	June 30, 2013
<u>Revenues</u>		
Assessment revenues collected from 1st Purchasers	\$ 11,164,149	\$ 12,245,757
Less:		
Assessment revenue remitted to Qualified State Soybean Boards	(442,082)	(465,394)
Assessment revenue remitted to United Soybean Board	(4,894,477)	(5,656,042)
Net assessment revenues	\$ 5,827,590	\$ 6,124,321
Interest income	8,972	11,395
Miscellaneous revenue	29,502	33,008
Total revenues	\$ 5,866,064	\$ 6,168,724
<u>Expenditures</u>		
Program expenditures:		
Printing	\$ 11,009	
Marketing	1,024,731	
International marketing		\$ 620,740
Domestic marketing		327,462
Communications	651,604	
Consumer information		240,121
Producer education	254,014	
Producer communications		518,749
Research	1,488,751	1,367,324
Total program expenditures	\$ 3,430,109	\$ 3,074,396
Administration	\$ 806,070	\$ 237,933
Total expenditures	\$ 4,236,179	\$ 3,312,329
Revenues over expenditures	\$ 1,629,885	\$ 2,856,395
Fund Balance, Beginning of Year	\$ 8,363,630	\$ 5,507,235
Fund Balance, End of Year	\$ 9,993,515	\$ 8,363,630

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.

L. Program Expenditure Classification Changes

Classification changes were made to more accurately reflect the funds being spent on specific projects under the purview of each committee of the Council. As a result, fiscal year 2014 program expenditures were realigned under four primary categories: General and Administrative Expenses (overseen by the Executive Committee); Marketing (overseen by the Marketing Committee to include both domestic and international marketing programs); Research (which remained unchanged between fiscal year 2013 and fiscal year 2014; 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. Producer Communication funds were actually being spent on producer education programs therefore the name was changed to more accurately reflect the spending.

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 \$9,361,655 and \$7,340,173 at June 30, 2014 and 2013, 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 at June 30, 2013 and 2014. All investments were certificates of deposit insured by the U.S. government. NDCC 4-24-09 states the State Treasurer shall credit 20% of the investment income to the general fund in the state treasury as payment for services when provided without cost to the Council, the remaining 80% is credited to the soybean fund.

NOTE 3 - CAPITAL ASSETS

The following is a summary of capital assets for the fiscal years ended June 30, 2014 and 2013.

	Balance 7/1/13	Additions	Adjustments	Transfers	Balance 6/30/14
Capital assets, depreciable					
Equipment	\$ 116,916				\$ 116,916
Intangible assets	12,210				12,210
Total capital assets, depreciable	<u>\$ 129,126</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 129,126</u>
Less accumulated depreciation					
Equipment	61,312	5,261			66,573
Intangible assets	4,884	2,442			7,326
Total accumulated depreciation	<u>\$ 66,196</u>	<u>\$ 7,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,899</u>
Total capital assets, depreciable, net	<u>\$ 62,930</u>	<u>\$ (7,703)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,227</u>

	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>

NOTE 4 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the fiscal years ended June 30, 2014 and 2013 is presented as follows:

	Balance 7/1/13	Additions	Reductions	Balance 6/30/14	Current Portion
Compensated Absences	33,897	\$ 31,052	(23,248)	\$ 41,701	\$ 2,131
Total	<u>\$ 33,897</u>	<u>\$ 31,052</u>	<u>\$ (23,248)</u>	<u>\$ 41,701</u>	<u>\$ 2,131</u>

	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

NOTE 5 – LEASE OBLIGATIONS

Operating leases

The Council has two operating leases: rent of office space and for a copier. Expenditures for operating leases were \$65,875 and \$38,449, respectively for the fiscal years ended June 30, 2014 and 2013. Debt service requirements to maturity for operating lease obligations at June 30, 2014 are as follows:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2015	37,200
2016	3,067
Total	<u>\$ 40,267</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), 6% (effective January 1, 2013), and 7% (effective January 1, 2014) 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 4% of the employee contribution. Employer contributions of 4.12% (effective through December 31, 2011), 5.12% (effective January 1, 2012), 6.12% (effective January 1, 2013), and 7.12% (effective January 1, 2014) 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, 2014, 2013, and 2012, were \$41,130, \$32,363, and \$23,115, 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 1 of these financial statements, the Council is an agency of the state of North Dakota; as such, other agencies of the state are related parties. The Council made payments to North Dakota State University, North Dakota State University Development Foundation, and the Northern Crops Institute of \$1,601,599 during fiscal year 2014, and \$1,160,479 during fiscal year 2013. All payments were for research, funding, or services contracts or sponsorships 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 \$251,707 and \$161,359 during fiscal years 2014 and 2013, respectively.

The Council has a close working relationship and contracted with the following entities for additional research or education programs during fiscal year 2014: the North Central Soybean Research Program for \$150,000, the World Initiative for Soy in Human Health for \$191,333, the United Soybean Export Council \$95,850, and the Soy Transportation Coalition for \$50,000. Fiscal year 2013 expenditures were: the North Central Soybean Research Program for \$150,000, the World Initiative for Soy in Human Health for \$125,000, the United Soybean Export Council \$10,439, the Soy Transportation Coalition for \$50,000, and the National Biodiesel Board 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 owned 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 \$1,362,505 and \$1,537,998 and approved promotional contracts with the North Dakota Soybean Growers Association for \$243,000 and \$198,000, respectively at June 30, 2014 and 2013.

Supplementary Information

Schedule of Contracts/Grants in Process

Contract/Grant	Total Budgeted	Expended as of 6/30/14	Balance 6/30/14
Soybean Response to Nitrogen Inputs Under Tile Drained Conditions	\$ 10,086		\$ 10,086
Soybean Productivity on Raised Seedbeds	10,436		10,436
Infield Crop Sensing Technology Applications to Soybean Production	26,490		26,490
Demonstrate the Effectiveness of Unmanned Aircraft Systems in Soybean Crop Mgmt	18,791		18,791
Soil Water Use Shift in Soybeans	11,345		11,345
Visual Ratings for IDC	85,725		85,725
Breeding of Glyphosate Resistant Soybean Cultivars	124,454		124,454
Breeding of Improved Non-GMO Cultivars and Germplasm	221,589		221,589
Employing Fall and Spring Herbicide Treatments to Combat Glyphosate Resistant Kochia in Central ND	21,125		21,125
Utilizing Winter Rye to Suppress Kochia Emergence Prior to Soybean Planting	4,725		4,725
Evaluating the Effects of Soybean Plant Stand by Planting Date	7,625		7,625
Impact of Selected Establishment Factors on Soybean Production	16,125		16,125
Management of Soybean Root Diseases in Multiple Planting Dates and Environment of ND	33,625		33,625
Optimizing the Use of Row Spacing, Partial Host Resistance, and Fungicides for Mgmt of Sclerotinia in Soy	35,925		35,925
Managing Sclerotinia in Soybeans with Contans	20,125		20,125
Screen Breeding Lines for Resistance to Diseases, Identify New and Virulent Strains of Soybean Pathogens	54,500		54,500
Virulent Types of SCN in ND (SBARE)	9,600		9,600
Effect of Soil Salinity on Disease Resistance of Soybean	37,500		37,500
Controlling Volunteer Roundup Ready Canola with PRE Herbicides	4,175		4,175
Impact of Tillage System, Previous Fertility, and Previous Crop on Rhizobia, Nitrogen, & Prod(SBARE)	18,310		18,310
Maximizing Soil Warming and Health Under Different Tillage Practices	56,054		56,054
Soybean Responses to Conservation Tillage Practices Under Tile Drained Conditions	17,285		17,285
Field Demonstration of Different Insecticide Strategies for Mgmt of Soybean Aphids	20,125		20,125
Novel, High Performance Soybased Materials for Composites and Coatings	71,650		71,650
Increasing Awareness of Soybean Cyst Nematode in North Dakota	85,975		85,975
Seeding Date, Cultivar, and Location Influence on Soybean Performance and Phenology in ND	30,075		30,075
Commercial Evaluation of Novel Soy Based Resin in Wood Composites	33,240		33,240
Digital Imaging Technique to Detect and Count Aphids in Soybeans	24,595		24,595
Tom DeSutter-Improving Soil Health and Productivity of Sodic Soils	70,299		70,299
Soil Salinity Gradients Damage to Soybeans and Pest Infestations	73,299		73,299
Research and Extension Efforts at the SHARE Farm	66,373		66,373
Managing Current and Emerging Soybean Insect Pests in ND	12,355		12,355
Novel Soy Based Resin for Wood Composite Industry	16,392		16,392
How Soil Salinity Gradients Damage Soybeans	12,512		12,512
NDSGA Leadership Contract	30,000		30,000
NDSGA Expo Edition Magazine Contract	8,000		8,000
NDSGA Magazine Contract	160,000		160,000
NDSGA Soy Promotion Contract - Employee Vehicle Contract	15,000		15,000
NDSGA Promotion Advertising Agreement	30,000		30,000
Total	\$ 1,605,505		\$ 1,605,505

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

Schedule of Activities – Actual and Budget

	Actual	June 30, 2014 Budget	Difference	June 30, 2013 Actual
Revenues				
Assessment revenues collected from 1st Purchasers	\$ 11,164,149		\$ 11,164,149	\$ 12,245,757
Less:				
Assessment revenue remitted to QSSB's	(442,082)		(442,082)	(465,394)
Assessment revenue remitted to USB	(4,894,477)		(4,894,477)	(5,656,042)
Net assessment revenues	\$ 5,827,590		\$ 5,827,590	\$ 6,124,321
Interest income	\$ 8,972		\$ 8,972	\$ 11,395
Miscellaneous revenue	29,502		29,502	33,008
Total revenues	\$ 5,866,064		\$ 5,866,064	\$ 6,168,724
Expenditures				
Program expenditures:				
Printing	\$ 11,009	\$ 10,000	\$ 1,009	
Marketing	1,024,731	1,700,000	(675,269)	
International marketing				\$ 620,740
Domestic marketing				327,462
Communications	651,604	910,000	(258,396)	
Consumer information				240,121
Producer education	254,014	275,000	(20,986)	
Producer communications				518,749
Research	1,488,751	1,800,000	(311,249)	1,367,324
Total program expenditures	\$ 3,430,109	\$ 4,695,000	\$ (1,264,891)	\$ 3,074,396
Administration	\$ 806,070	\$ 830,000	\$ (23,930)	\$ 237,933
Total expenditures	\$ 4,236,179	\$ 5,525,000	\$ (1,288,821)	\$ 3,312,329
Increase (Decrease) in Fund Balance	\$ 1,629,885	\$ (5,525,000)		\$ 2,856,395

Responses to LAFRC Audit Questions

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

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

Unmodified.

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

Yes.

3. Was internal control adequate and functioning effectively?

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 pages 24-26 of this report contains one informal recommendation related to compliance with NDSGA contracts. 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

September 9, 2014

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, 2014, and have issued our report thereon dated September 9, 2014. 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 9, 2014.

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:

Employee Vehicle Contract with NDSGA (Informal #1)

Condition:

In the review of compliance with the fiscal year 2014 Soy Promotion Advertising Agreement - Employee Vehicle, we noted that:

- the Council did not maintain a list of events where the SUV was driven as required by #1g of the contract. The log that was kept in the vehicle listed a city or destination, but the event was not documented.
- the agreement stated that only Council employees and board members may use the vehicle and if Association members drive the vehicle they must receive consent from the Council and they must pay for fuel. We noted that an Association member signed the log maintained in the vehicle on several dates. The Council did not have any documentation of the Association's request to and consent from Council for use of the vehicle, nor had the Association paid for fuel.

Effect:

Noncompliance with the employee vehicle advertising agreement. Transactions may occur that are not recorded.

Cause:

The Council is not adequately monitoring and reviewing transactions with the Association for compliance.

Criteria:

Good internal controls require proper monitoring and review of agreements and related transactions to insure compliance.

Recommendation:

We recommend the Council comply with the terms of the signed agreement with the Association for the employee vehicle advertising agreement by:

- maintaining a list of events where the SUV was used;
- ensure the Association requests and receives consent from the Council for use of the vehicle; and
- the Association pays for fuel when they drive the SUV.

North Dakota Soybean Council's Response:

Ensuring compliance with all contract agreements continues to be a high priority for the Council. To this end, the Council agrees to immediately adopt a more formal process of monitoring and ensuring compliance with the terms of this contract and to implement the above stated recommendations as part of the solution.

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,



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

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