Financial Statements
June 30, 2016

Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council

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Independent Auditor's Report

The Honorable Dennis Daugaard
Governor of South Dakota

and

The Board of Directors
South Dakota Corn Utilization Council
Sioux Falls, South Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of the Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council which comprise the balance sheet as of June 30, 2016, and the related statement of revenues, expenditures, and changes in fund balances for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council as of June 30, 2016, and the changes in fund balances for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter
As discussed in Note 1, the financial statements referred to above present only the Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council and do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2016, and the changes in its financial position for the year 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 the accounting principles generally accepted in the United States of America requires 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 the missing information.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The list of officials on page 13, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The list of officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016, on our consideration of the Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the South Dakota Corn Utilization Council's internal control over financial reporting and compliance.

Eide Bailly LLP

Sioux Falls, South Dakota
October 11, 2016

Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council

Balance Sheet
June 30, 2016

Assets	
Cash and investments	$ 6,615,851
Interest receivable	14,291
Total assets	$ 6,630,142
Liabilities and Fund Balance	
Accounts payable	$ 207,764
Refunds payable	58,589
Total liabilities	266,353
Restricted fund balance	6,363,789
Total liabilities and fund balance	$ 6,630,142

See Notes to Financial Statements

Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council

Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2016

Revenues	
Check-off fees	$ 5,629,640
Investment return - SD Investment Council	106,879
Miscellaneous revenue	416
Total revenues	5,736,935
Expenditures	
Grants and subsidies	1,830,611
Contractual services	1,632,637
Personnel services	89,947
Travel	106,177
Supplies and materials	14,405
Total expenditures	3,673,777
Excess of Revenues over Expenditures	2,063,158
Beginning Fund Balance	4,300,631
Ending Fund Balance	$ 6,363,789

See Notes to Financial Statements

Note 1 - Principal Activity and Significant Accounting Policies

Reporting Entity

The fund included in this report is a fund of the State of South Dakota Corn Utilization Council. The South Dakota Corn Utilization Council is a functional subunit of the Department of Agriculture which was created under SDCL 38-32 for market maintenance and expansion, research, education, transportation, and for the prevention, modification or elimination of trade barriers which obstruct the free flow of corn and corn products to market.

Fund Accounting and Governmental Fund Type

The accounts are organized on the basis of funds, each of which is considered a separate accounting entity, with its own set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in this report is classified as a Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Corn Check-off Fund is a Special Revenue Fund for the collection and expenditure of corn check-off fees.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

All governmental funds are accounted for on the modified accrual basis of accounting. The modified accrual basis of accounting recognizes revenues in the period in which they become available and measurable. The revenue which was accrued at June 30, 2016, is interest receivable. Expenditures are generally recognized when the related fund liability is incurred. Grants and similar expenditures are recognized when the recipient has met all eligibility requirements. As a result of this modified accrual basis of accounting, assets such as accounts receivable and revenue (such as check-off fees collected from the producer, but not yet received), and liabilities such as net pension liability are not recorded in these financial statements.

Cash and Investments

Cash and investments includes cash on hand, demand deposits and a participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value.

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501. Funds on deposit with the State Treasury are invested by the State Investment Officer pursuant to SDCL 4-5-23 with the Council getting its proportionate share of interest income under SDCL 4-5-30. The Council did not have privately held investments as June 30, 2016.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. The bank balance of cash in bank at June 30, 2016 was $2,341,487. Of the bank balance, $250,000 was insured by federal depository insurance and the remainder ($2,091,487) was insured by pledged collateral.

Fund Balances

Restricted fund balances represent revenues that are externally restricted or revenues that have restrictions imposed upon them, limited to the requirements of SDCL 38-32.

Note 2 - Check-Off Fees

The South Dakota Corn Utilization Council, pursuant to SDCL 38-22, has imposed a one cent per bushel assessment on all corn marketed to a first purchaser within the state. The assessments are deducted from the purchase price by the first purchaser and remitted to the South Dakota Corn Utilization Council within 30 days after the end of each calendar quarter. Any grower subject to this assessment may, within 60 days of the assessment, make application to the South Dakota Corn Utilization Council for refund of the assessment. Check-off fees reported in this report are presented net of amounts refunded in accordance with accounting principles generally accepted in the United States of America. For the fiscal year ended June 30, 2016, fees totaling $6,236,069 were collected and fees totaling $606,556 were refunded.

Note 3 - Statement of Expenses Paid – Budget and Actual (Budgetary Basis)

	2016		
	Budgeted	Actual	Variance
Contractual services and grants	$ 5,605,082	$ 3,463,248	$ 2,141,834
Personnel services	144,366	89,947	54,419
Travel	100,000	106,177	(6,177)
Supplies and materials	40,000	14,405	25,595
Total	$ 5,889,448	$ 3,673,777	$ 2,215,671

Note 4 - Retirement Plan

The South Dakota Corn Utilization Council participates in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute six percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The South Dakota Corn Utilization Council contributions to the SDRS for the fiscal years ended June 30, 2016, 2015, and 2014 were $3,919, $3,767, and $3,108 respectively, equal to the required contributions each year.

Note 5 - Management Agreement

South Dakota Corn Utilization Council (SDCUC) has a management agreement with South Dakota Corn Growers Association (SDCGA). The management agreement is renewed at the end of each fiscal year and may be terminated by either party with a one hundred eighty day written notice. Under this agreement, SDCGA shares their employees with SDCUC. These shared positions are as follows: Office Manager, Administrative Assistant, Communications Director, and Market Development Director and Legislative and Industry Director. Additionally, the management agreement provides for utilities, insurance and building maintenance, use and maintenance of office equipment, office supplies, and internet and telephone expenses.

SDCUC pays a monthly fee for these benefits. This fee is based upon a percentage of the estimated total cost for the above personnel and office expenses and a 15% operating margin. For the fiscal year ended June 30, 2016, the total costs and operating margin paid to SDCGA by SDCUC were $573,252. The expenditure is recorded in contractual services on the statement of revenue, expenditures, and changes in fund balance.

SDCUC leases office space from SDCGA under a lease agreement that commenced July 1, 2011. The terms of the lease called for an advance payment of the eleven year lease term, which was paid in 2011.

Note 6 - 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 Council carries commercial insurance for all significant risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note 7 - Commitments

In June 2016, the Council executed a letter of commitment in which they will provide a foundation $1,000,000 annually for 3 years beginning in fiscal year 2017, which are conditional based on the construction of a new precision agriculture facility.

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

The Honorable Dennis Daugaard
Governor of South Dakota

and

The Board of Directors
South Dakota Corn Utilization Council
Sioux Falls, South Dakota

We have audited, 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, the financial statements of the Department of Agriculture Corn Check-off Fund of the South Dakota Corn Utilization Council (Council) as of and for the year ended June 30, 2016 and the related notes to the financial statements, and have issued our report thereon dated October 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department of Agriculture Corn Check-off Fund of the South Dakota Corn Utilization Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Council's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described as Finding 2016-001 in the accompanying schedule of findings and responses to be a material weakness.

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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. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 2016-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 that are required to be reported under *Government Auditing Standards*.

South Dakota Corn Utilization Council's Responses to Findings

Department of Agriculture Corn Check-off Fund of the South Dakota Corn Utilization Council's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. South Dakota Corn Utilization Council's responses were not subject to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the responses.

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.

Eide Bailly LLP

Sioux Falls, South Dakota
October 11, 2016

Finding Number 2016-001 – Preparation of Financial Statements

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition: The Council does not have an internal control system designed to provide for the preparation of the financial statements being audited. We were requested to draft the financial statements and accompanying notes to the financial statements. We also identified a material adjustment during the audit relating to checks written, but not issued by year end due to the timing of when the second signature was obtained.

Cause: The Council has limited staff. They cannot justify having an individual on staff with the proper accounting skills necessary for preparing the draft financial statements and accompanying notes to the financial statements.

Effect: This deficiency results in a reasonable possibility that the Council would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial accounting and reporting requirements of the Council as well as changes in these requirements.

Management's Response: Since it is not cost-effective for an organization of our size to have an individual on staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our financial statements as part of the annual audit. Management and the board of directors will review for propriety the draft financial statements and accompanying notes to the financial statements.

Finding Number 2016-002 – Lack of Proper Segregation of Duties for the Revenue and Expenditure Functions

Criteria: In order to achieve a high level of internal control, the functions of executing transactions, recording transactions and maintaining accountability for assets should be performed by different employees or be maintained under dual control.

Condition: The Council did not have an internal control system to allow for the proper segregation of duties in certain areas of the accounting function.

Cause: The Council has limited staff and cannot justify hiring an additional individual in order to better segregate accounting duties.

Effect: Proper segregation of duties helps to minimize the chance of undetected errors or defalcations, since the work of one person is reviewed by the work of another.

Recommendation: Due to the small size of the office, the Council is limited in the options available to them. Under this situation, the most effective control is management and the board's oversight and knowledge of matters relating to the operations of the Council.

Management's Response: We have evaluated the segregation of duties over the revenue function and over the expenditure function. Management and the board of directors will exercise oversight of the accounting functions, which we believe mitigates the risk of material misstatement to an acceptable level.

Finding Number 2015-001 – Preparation of Financial Statements

Condition: The Council does not have an internal control system designed to provide for the preparation of the financial statements being audited. We were requested to draft the financial statements and accompanying notes to the financial statements.

Status: We were again requested to draft the financial statements and accompanying notes to the financial statements. See Finding 2016-001.

Finding Number 2015-002 – Lack of Proper Segregation of Duties for the Revenue and Expenditure Functions

Condition: The Council did not have an internal control system to allow for the proper segregation of duties in certain areas of the accounting function.

Status: Due to the limited staffing, see Finding 2016-002.

Reno Brueggeman, President	Miller, South Dakota
Justin Davis, Vice President	Ipswich, South Dakota
Ryan Wagner, Secretary/Treasurer	Roslyn, South Dakota
Nick Jorgensen	Ideal, South Dakota
Robert Walsh	Elk Point, South Dakota
Scott Sperry	Bath, South Dakota
Laron Krause	Clear Lake, South Dakota
Al Miron	Sioux Falls, South Dakota
Lisa Richardson, Executive Director	Sioux Falls, South Dakota