



Financial Statements
June 30, 2020

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

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

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June 30, 2020

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Independent Auditor's Report

The Honorable Kristi Noem
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, 2020, 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.

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, 2020, and the changes in financial position for the year then ended in conformity 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, 2020, 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.

Restatement and Reissuance

As discussed in Note 10, subsequent to the issuance of the Council's 2020 financial statements and our report thereon dated September 16, 2020, we became aware of an audit adjustment requested by the State of South Dakota that materially increases the Council's unrealized appreciation from the investments in the State Treasury Cash Management Fund and the investment return. In our original report we expressed an unmodified opinion on the 2020 financial statements, and our opinion on the revised statements, as expressed, herein, remains unmodified.

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 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 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 shown on page 15, 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 September 16, 2020, 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, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council's 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 Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
September 16, 2020, except for Note 10 which is November 17, 2020

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

Balance Sheet
June 30, 2020

	(As Restated)
Assets	
Cash in checking	\$ 5,947
Investment in State Treasury Cash Management Fund	3,591,023
Assessment receivable	834,317
Interest receivable	<u>15,635</u>
Total assets	<u>\$ 4,446,922</u>
Liabilities and Fund Balance	
Accounts payable	\$ 11,695
Refunds payable	<u>7,779</u>
Total liabilities	<u>19,474</u>
Restricted fund balance	<u>4,427,448</u>
Total liabilities and fund balance	<u>\$ 4,446,922</u>

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, 2020

	(As Restated)
Revenues	
Assessment revenue - check-off fees	\$ 4,407,882
Investment return - SD Investment Council	166,727
Miscellaneous revenue	133
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Total revenues	4,574,742
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Current Expenditures	
Grants and subsidies	2,612,042
Contractual services	1,184,677
Personnel services	97,368
Travel	62,176
Supplies and materials	17,679
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Total current expenditures	3,973,942
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Excess of Revenues over Expenditures	600,800
Beginning Fund Balance	3,826,648
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Ending Fund Balance	\$ 4,427,448
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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 (the 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. The Council is governed by a Board that is elected by South Dakota corn producers.

The financial statements present only the Council and do not purport to, and do not, present fairly the financial position of the State of South Dakota, as of June 30, 2020, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Fund Accounting

The accounts of the Council are organized on the basis of a fund which is considered a separate accounting entity. The operations of the fund are accounted for with a 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 the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Governmental Fund Type

The fund in this report is classified as a Special Revenue Fund. 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 and Measurement Focus

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

The current financial resources measurement focus and modified accrual basis of accounting are used to report the Council's funds in the financial statements. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter to pay liabilities of the current period. The accrual period for the Council is sixty days. 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.

Cash and Investments

Cash and investments includes 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, 2020.

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, 2020 was \$1,314,247. Of the bank balance, the entirety is insured by federal depository insurance. From time-to-time the balance may exceed the federal depository insurance limit of \$250,000; in which case the remainder above the limit is insured by pledged collateral.

Prepaid Items

Certain payments reflect costs applicable to future accounting periods. The Council uses the purchases method to account for prepaid items. The cost of prepaid items is recorded as expenditures when purchased rather than when consumed. No prepaid asset is recorded on the balance sheet.

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.

Subsequent Events

The Council has evaluated subsequent events through September 16, 2020 the date which the financial statements were available to be issued.

Note 2 - Check-Off Fees

The 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 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 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, 2020, fees totaling \$4,852,210 were recognized and fees totaling \$444,328 were refunded. The Council has an assessment receivable of \$834,317 as of June 30, 2020, as this is expected to be collected within the 60-day accrual period.

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

The Council provides an informational budget to the State approximately two years in advance of the start of the fiscal year. The results of actual operations compared to the informational budget for the year ending June 30, 2020, are as follows:

	Budgeted	Actual	Variance
Contractual services and grants	\$ 8,175,000	\$ 3,796,719	\$ 4,378,281
Personnel services	128,189	97,368	30,821
Travel	135,163	62,176	72,987
Supplies and materials	40,000	17,679	22,321
	\$ 8,478,352	\$ 3,973,942	\$ 4,504,410

Note 4 - Retirement Plan

The 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, PO 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, 2020, 2019, and 2018 were \$4,289, \$4,183, and \$4,133 respectively, equal to the required contributions each year.

Note 5 - Related Party

South Dakota Corn Growers Association

The Council 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 the Council. These shared positions are as follows: Office Manager, Senior Writer, and Legislative and Industry Director. Additionally, the management agreement provides for utilities, insurance and building maintenance, taxes, accounting services, clerical services, use and maintenance of office equipment, office supplies, and internet and telephone expenses.

The Council 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, 2020, the total costs and operating margin paid to SDCGA by the Council were \$540,000. The expenditure is recorded in contractual services on the statement of revenue, expenditures, and changes in fund balance.

The Council 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.

The Council provided funding to SDCGA in the amount of \$200,000 used for corn promotion during the year ended June 30, 2020.

South Dakota State University (SDSU)

SDSU is a university governed by the Board of Regents (Higher Education), which is discretely presented component unit to the State of South Dakota. South Dakota Corn Utilization Council has entered into various grants with SDSU and provided funding to SDSU in the amount of \$1,260,000 used for the South Dakota Corn Endowed Chair Precision Agriculture and for research. The Council has entered into commitments with SDSU, which are included in Note 7.

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 April 2019, the Council executed a letter of commitment to provide SDSU with \$1,000,000 over a four-year period beginning June 2020. This commitment is designated for the renovation of research space within an agricultural hall for a State of South Dakota University. As of June 30, 2020 there have been no payments made on this commitment.

In June 2018, the Council executed a letter of commitment to provide SDSU with \$1,500,000 over a seven-year period beginning June 2019. This commitment is designated for the creation of a South Dakota Corn Endowed Chair Position in Precision Agriculture at State of South Dakota University. As of June 30, 2020 there has been \$1,000,000 paid on this commitment. The Council did provide an additional \$500,000 for the creation of a South Dakota Endowed Chair Position in Precision Agriculture prior to the execution of the formal commitment for a total of \$2,000,000.

Note 8 - Risks and Uncertainties

COVID-19 Pandemic

During 2020, the world-wide coronavirus pandemic impacted national and global economies. The Council is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Council is not known.

Note 9 - Accumulated Unpaid Vacation and Sick Leave

Annual leave is earned on a bimonthly basis by employees at a rate based on their years of service. Upon termination employees are entitled to receive compensation for their accrued annual leave balance.

Sick leave is earned by the employees at the rate of approximately 4.667 hours per bimonthly payroll period. Employees who have been continuously employed by the State for at least seven years prior to the date of their retirement, voluntary resignation, or death will receive payment equal to one-fourth of their accumulated unused sick leave, not to exceed 480 hours.

As of June 30, 2020, balances for accrued vacation and sick leave were \$12,788 and \$11,281, respectively. These liabilities are not reflected in the accompanying financial statements, as they are not expected to be liquidated with expendable available financial resources.

Department of Agriculture Corn Check-Off Fund of the
 South Dakota Corn Utilization Council
 Notes to Financial Statements
 June 30, 2020

Note 10 - Restatement and Reissuance

Subsequent to the issuance of the Council's 2020 financial statements, we became aware of an audit adjustment requested by the State of South Dakota that materially increases the Council's unrealized appreciation from the investments in the State Treasury Cash Management Fund and the investment return. The Council has restated and reissued the financial statements to appropriately reflect the adjustment for the year ended June 30, 2020.

The following is a summary of the effects of the adjustment in the Council's June 30, 2020 balance sheet:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Adjusted</u>
Investment in State Treasury Cash Management Fund	\$ 3,514,661	\$ 76,362	\$ 3,591,023
Total assets	4,370,560	76,362	4,446,922
Restricted fund balance	4,351,086	76,362	4,427,448
Total liabilities and fund balance	4,370,560	76,362	4,446,922

The following is a summary of the effects of the adjustment in the Council's June 30, 2020 statement of revenues, expenditures and changes in fund balance:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Adjusted</u>
Investment return - SD Investment Council	\$ 90,365	\$ 76,362	\$ 166,727
Total revenues	4,498,380	76,362	4,574,742
Excess of Revenues over Expenditures	524,438	76,362	600,800
Ending Fund Balance	4,351,086	76,362	4,427,448



**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 Kristi Noem
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 (the Council), which comprise the balance sheet as of June 30, 2020 and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, 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*.

South Dakota Corn Utilization Council's Response to the Finding

The Council's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Council's response was not subject to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the response.

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.



Sioux Falls, South Dakota
September 16, 2020

**Finding Number 2020-001 Preparation of Financial Statements
Significant Deficiency**

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.

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 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.

Views of Responsible Officials and Management's Corrective Action Plan: 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 2019-001 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: Eide Bailly was again requested to draft the financial statements and accompanying notes to the financial statements. See Finding 2020-001.

Finding Number 2019-002 Contracted Services Agreement

Condition: The fee paid to SDCGA was revised during the year ending June 30, 2019, but the addendum to the services agreement was not amended, nor formally approved by the board of directors.

Status: There were no amendments during the year and the fee paid to SDCGA was supported by approval of the annual contract by the board of directors, however, the amount paid was in excess of the contract amount by an insignificant amount during the year ended June 30, 2020.

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

List of Officials - Unaudited

June 30, 2020

Robert Walsh, President	Elk Point, South Dakota
Grant Rix, Vice President	Groton, South Dakota
Justin Minnaert, Secretary/Treasurer	Madison, South Dakota
Laron Krause	Clear Lake, South Dakota
Stuart Samson	Eden, South Dakota
Jim Klebsch	Redfield, South Dakota
Chad Blindauer	Mitchell, South Dakota
Jim Ketelhut	Pukwana, South Dakota
Lisa Richardson, Executive Director	Sioux Falls, South Dakota