



Financial Statements
June 30, 2014

South Dakota Wheat Utilization,
Research and Market Development
Commission

South Dakota Wheat Utilization, Research and Market Development Commission

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Honorable Dennis Dugaard
Governor of South Dakota

and

The Board of Commissioners
Pierre, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Wheat Utilization, Research and Market Development Commission (the Commission) which comprise the statement of assets, liabilities, and fund balance arising from cash transactions as of June 30, 2014, and the related statement of revenues, expenditures, and changes in fund balances arising from cash transactions 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 the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 assets, liabilities, and fund balance arising from cash transactions of the Commission as of June 30, 2014, and the changes in fund balances for the year then ended on the basis of accounting described in Note 1.

Basis for Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Emphasis-of-Matter

As discussed in Note 1, the financial statements referred to above present only the South Dakota Wheat Utilization, Research and Market Development Commission and do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2014, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The List of Commissioners 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 commissioners 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 DATE, on our consideration of the South Dakota Wheat Utilization, Research and Market Development Commission'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 Wheat Utilization, Research and Market Development Commission's internal control over financial reporting and compliance.



Sioux Falls, South Dakota
August 18, 2014

South Dakota Wheat Utilization, Research and Market Development Commission
Statement of Assets, Liabilities, and Fund Balance Arising from Cash Transactions
June 30, 2014

Assets

Cash and cash equivalents	
Cash in checking	\$ 8,342
Investment in State Treasury Cash Management Pool	<u>518,591</u>
 Total assets	 <u>\$ 526,933</u>

Fund Balance

Restricted Fund balance	<u>\$ 526,933</u>
 Total fund balance	 <u>\$ 526,933</u>

South Dakota Wheat Utilization, Research and Market Development Commission
Statement of Revenues, Expenditures and Changes in Fund Balance Arising from Cash Transactions
Year Ended June 30, 2014

Receipts	
Check-off fees	\$ 1,252,824
Interest income	7,617
Miscellaneous	<u>2,000</u>
Total receipts	<u>1,262,441</u>
Expenditures	
Research	334,686
Market development	270,000
Information and education	80,889
Policy and government affairs	123,306
General operations	36,884
Travel	30,049
Personnel services	179,851
Employee benefits	<u>36,988</u>
Total expenditures	<u>1,092,653</u>
Excess of Receipts over Expenditures	169,788
Beginning Fund Balance	<u>357,145</u>
Ending Fund Balance	<u><u>\$ 526,933</u></u>

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. The South Dakota Wheat Utilization, Research and Market Development Commission is a functional subunit of the Department of Agriculture which was created under SDCL 38-10 for market maintenance and expansion, research, education, transportation, and for the prevention, modification or elimination of trade barriers which obstruct the free flow of wheat and wheat 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, receipts, and expenditures, 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 State has granted the Commission the authority to administer the assets held in the Wheat Check-Off Fund.

Basis of Accounting

This government fund is accounted for on the cash basis of accounting. As a result, the statement of assets, liabilities, and fund balance arising from cash transactions and the statement of receipts, expenditures, and changes in fund balance arising from cash transactions reflect only cash received and disbursed.

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 Commission (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 Commission getting its proportionate share of interest income under SDCL 4-5-30. The Commission did not have privately held investments as June 30, 2014.

South Dakota Wheat Utilization, Research and Market Development Commission

Notes to Financial Statements

Year Ended June 30, 2014

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 Commission does not have a deposit policy for custodial credit risk. The bank account is insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year, the Commission's bank balance exceeded this limit.

Restricted Fund Balance

Restricted fund balances represent receipts that are externally restricted or that have restrictions imposed upon them, limited to the requirements of SDCL 38-10.

Note 2 - Check-Off Fees

The South Dakota Wheat Commission, pursuant to SDCL 38-10, has imposed a one and a half cent per bushel assessment on all wheat 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 Wheat Commission 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 Wheat Commission 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, 2014, fees totaling \$1,333,347 were collected and fees totaling \$80,524 were refunded.

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

	2014		Variance
	Budgeted	Actual	
Research	\$ 338,783	\$ 334,686	\$ 4,097
Market development	260,000	270,000	(10,000)
Information and education	73,550	80,889	(7,339)
Policy and government affairs	107,500	123,306	(15,806)
General operations	36,425	36,884	(459)
Travel	26,500	30,049	(3,549)
Personnel services	172,874	179,851	(6,977)
Employee benefits	46,870	36,988	9,882
Total	\$ 1,062,502	\$ 1,092,653	\$ (30,151)

Note 4 - Retirement Plan

The South Dakota Wheat Commission 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 Wheat Commission contributions to the SDRS for the fiscal years ended June 30, 2014 and 2013 was \$7,047 and \$9,600, respectively, equal to the required contributions each year.

Note 5 - Risk Management

The Commission 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 Commission is covered for all significant risks of loss under the State of South Dakota's insurance policy. Settled claims relating to the Commission resulting from these risks have not exceeded insurance coverage in any of the past three years.

Note 6 - Operating Leases

The Commission has entered into leases for office space and office equipment under long-term operating leases. Under the office space lease arrangements, the Commission pays 50% of utilities and its share of the maintenance and expenses related to the leased property.

The lease agreement for office space expires on June 30, 2024. Operating lease expense for the year ended June 30, 2014, was \$16,225. The estimated future minimum lease payments at June 30, 2014, are summarized as follows:

Year Ending June 30,	Office Space
2015	\$ 20,000
2016	20,000
2017	20,000
2018	20,000
2019	20,000
Thereafter	100,000
Total	\$ 200,000

Note 7 - 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 4.67 hours per biweekly 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, 2014, balances for accrued vacation and sick leave were \$136 and \$5,498, respectively. Because the Commission's accounts are maintained on the cash basis of accounting, these liabilities are not reflected in the accompanying financial statements.

Note 8 - Future Commitments

The Commission has committed about \$1,274,000 for funding of projects in 2015 relating to research, promotion and other various activities aiming at enhancing producer awareness of wheat and wheat related issues. As of June 30, 2014, the entire amount of these commitments remain outstanding.

Note 9 - Subsequent Event

Effective July 1, 2014, The South Dakota Wheat Commission, pursuant to SDCL 38-10, revised the assessment from a one and a half cent per bushel assessment on all wheat marketed to a first purchaser within the state to forth-tenths of one percent on the net market value per bushel of wheat sold through commercial channels in South Dakota.

The Commission has evaluated subsequent events through August 18, 2014, the date which the financial statements were available to be issued.



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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 Commissioners
South Dakota Wheat Commission
Pierre, 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 South Dakota Wheat Commission (Commission) as of and for the year ended June 30, 2014 and the related notes to the financial statements, and have issued our report thereon dated August 18, 2014. The financial statements are prepared on the cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the South Dakota Wheat Commission'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 Commission's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Commission'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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be significant deficiencies as Finding 2014-001 and Finding 2014-002

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 Wheat Commission's Responses to Findings

South Dakota Wheat Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. South Dakota Wheat Utilization, Research and Market Development'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.



Sioux Falls, South Dakota
August 18, 2014

Finding Number 2014-001 – Preparation of Full Disclosure Financial Statements

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

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

Cause: The Commission 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: Inadequate controls over financial reporting of the Commission could result in the likelihood that the Cooperative would not be able to draft the financial statements with accompanying notes to the financial statements 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 Commission 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 2014-002 – Lack of Proper Segregation of Duties

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 Commission did not have an internal control system to allow for the proper segregation of duties in certain areas of the accounting function. The oversight and review process by management, such as the monthly bank reconciliation and monthly financial reports, is not formally documented.

Cause: The Commission has limited staff and cannot justify hiring an additional individual in order to better segregate accounting duties. Management oversight is done on an informal basis.

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 Commission 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 Commission.

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.

South Dakota Wheat Utilization, Research and Market Development Commission

List of Commissioners - Unaudited

June 30, 2014

Leo Warrington, Chairman

Bristol, South Dakota

Chet Edinger, Vice Chairman

Mitchell, South Dakota

Terry Hand, Secretary

Midland, South Dakota

Clinton Vanneman, Treasurer

Ideal, South Dakota

Darrell Davis

Ipswich, South Dakota

Reid Christopherson, Executive Director

Garretson, South Dakota