

NORTH DAKOTA BEEF COMMISSION
BISMARCK, NORTH DAKOTA

Audit Report

For the Fiscal Years Ended
June 30, 2010 and June 30, 2009

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Independent Auditor's Report

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Members of the Dakota Beef Commission

Nancy Jo Bateman, Executive Director
North Dakota Beef Commission

We have audited the accompanying financial statements of the general fund of the North Dakota Beef Commission, a department of the state of North Dakota, as of and for the fiscal years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the North Dakota Beef Commission's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the North Dakota Beef Commission are intended to present the financial position and changes in financial position of only that portion of the financial statements of the state of North Dakota that is attributable to the transactions of the North Dakota Beef Commission. They do not purport to, and do not present fairly the financial position of the state of North Dakota as of June 30, 2010 and 2009, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund of the North Dakota Beef Commission for the fiscal years ended June 30, 2010 and 2009, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2010 on our consideration of the North Dakota Beef Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 6-9 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of the management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the general fund financial statements. The accompanying supplementary information on page 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the North Dakota Beef Commission. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Robert R. Peterson
State Auditor

November 4, 2010



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 John Hoeven, Governor

Members of the Legislative Assembly

Members of the North Dakota Beef Commission

Nancy Jo Bateman, Executive Director
North Dakota Beef Commission

We have audited the accompanying financial statements of the general fund of the North Dakota Beef Commission as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 4, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Dakota Beef Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Beef Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Dakota Beef Commission's internal control over financial reporting.

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 and detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the North Dakota Beef Commission's financial statements that will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the North Dakota Beef Commission's Board of Directors, the Governor, and the Legislative Audit and Fiscal Review Committee and is not intended to be and should not be used by anyone other than these specified parties.



Robert R. Peterson
State Auditor

November 4, 2010



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BISMARCK, NORTH DAKOTA 58505

***Report on Compliance Based on an Audit of Financial
Statements Performed in Accordance with Certain Provisions of
the Beef Promotion and Research Act of 1985 and the Beef
Promotion and Research Order***

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Members of the North Dakota Beef Commission

Nancy Jo Bateman, Executive Director
North Dakota Beef Commission

We have audited the financial statements of the general fund of the North Dakota Beef Commission, a department of the state of North Dakota, as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 4, 2010.

In connection with our audit, nothing came to our attention that caused us to believe the North Dakota Beef Commission failed to comply with the terms, in so far as they related to the accounting matters of the Beef Promotion and Research Act of 1985 and the Beef Promotions and Research Order (the "Order"), relative to the use of funds collected by the North Dakota Beef Commission and with the terms described in section 1260.181(b)(7) of the Order relative to prohibited uses of funds collected by the North Dakota Beef Commission. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the North Dakota Beef Commission, Legislative Audit and Fiscal Review Committee, and management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

November 4, 2010

Management's Discussion and Analysis

As management of the ND Beef Commission, we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal years ended June 30, 2010 and 2009.

FINANCIAL HIGHLIGHTS

- The fund balance of the Commission as of June 30, 2010, 2009, and 2008 was \$302,982, \$439,969, and \$474,522, respectively.
- The Commission's fund balance decreased for the years ending June 30, 2010, 2009, and 2008 by \$136,987, \$34,553, and \$76,865, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the ND Beef Commission's financial statements. The Commission's financial statements are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund of the Commission is a governmental fund.

Governmental Funds

Governmental fund financial statements focus on *near-term inflows and outflows of spend-able resources*, as well as balances of spend-able resources available at the end of the fiscal year.

The Commission is granted a continuing appropriation for the collection of beef check-off funds pursuant to NDCC Chapter 4.1-3 and must report to the legislature, or their appointed committee, at the beginning of each legislative session on programs funded with check-off dollars for the previous two years.

Notes to the Financial Statements and Other Information

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Fund Balance as of June 30, 2010, 2009 and 2008**Revenues, Expenditures and Changes in Fund Balance For the Fiscal Years Ending June 30, 2010, 2009 and 2008**

	2010	2009	2008		2010	2009	2008
Total Assets	\$475,530	\$570,261	\$599,843	Revenues			
Total Liabilities	\$172,548	\$130,292	\$125,321	Net Assessment Revenue	\$577,632	\$593,840	\$596,690
Fund Balance	\$302,982	\$439,969	\$474,522	Interest Income	7,301	10,165	16,774
				Beef Gif Certif.	17,620	23,205	25,690
				Other Revenue	4,741	14,762	8,889
				Total Revenues	\$607,294	\$641,972	\$648,053
				Expenditures			
				Program Expenditures	\$483,308	\$414,521	\$482,980
				Administration	243,353	238,799	216,248
				Beef Gift Certificates	17,620	23,205	25,690
				Total Expenditures	744,281	676,525	724,918
				Decrease in Fund Balance	\$(136,987)	\$(34,553)	\$(76,865)

FINANCIAL ANALYSIS

The fund balance may serve over time as a useful indicator of government's financial position. In the case of the Commission, the fund balance was \$302,982 at the close of the most recent fiscal year.

By far the largest portion of the Commission's fund balance is represented by cash and investments. The Commission uses these assets to conduct programs of beef promotion, research, and education to increase the consumer demand for beef.

Financial Analysis of the Government's Funds

As noted earlier, the Commission used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Commission's governmental funds is to provide information on near-term inflows, outflow, and balances of spend-able resources. Such information is useful in assessing the Commission's financing requirements.

STATE OF BEEF INDUSTRY

The American beef industry has experienced some significant changes over the past decade. The state of the economy has had a major impact and while some are hopeful that the recession has passed, only time will tell. Today, the beef cow herd continues to shrink which is the industry's factory for the future. Exports are rising and imports are declining, thereby reducing domestic net beef supplies. Demand has stabilized and started to improve. The combination of all of these factors supports rising prices in the future for both producers and consumers.

Global Beef Supplies

The beef trade environment has shifted significantly over the past year. Asian demand for US beef has increased, mainly in South Korea, Japan, Hong Kong, Vietnam and Taiwan, even with short rib prices hitting record highs in the spring of 2010. The global beef herd is likely on its third consecutive year of decline, although it is slight.

US beef exports are expected to reach 2.26 billion pounds in 2010, 87.5 percent of the pre-BSE 2003 level. In terms of value, the US Meat Export Federation estimates that the value of these beef sales in 2010 will reach \$3.7 billion, only \$0.1 billion short of the record high of \$3.8 billion in 2003. Beef exports are expected to continue slightly below long-term trend line growth rates into 2011, up 4.5 percent to 2.36 billion pounds. This continued growth will be fueled mainly by Asia and the lesser markets.

In the area of beef imports into the US, early 2010 saw a sharp decline as the US dollar weakened nearly 40 percent from the prior year against the Australian dollar. Tight grinding supplies pushed 50/50 trim prices and utility cow prices to new record highs. It is expected that beef imports will decline by 12.2 percent in 2010 to 2.3 billion pounds. For 2011, look to see imports rise 4.5 percent, remaining well below 2009 levels at 2.45 billion pounds.

Overall, expect continued strong demand for US beef globally, particularly from Asia. Imports will remain tight during this same time, which will be supportive to lean grinding beef and cull cow and bull prices.

Cattle/Beef Supplies

The US beef cow herd is again expected to go down by 1.5 percent, or 450,000 head by the end of 2010. This will be the 13th year in the last 15 years that the beef cow herd has declined. In fact, the size of the total US cattle herd is as low as it has been since the 1960's. Many factors have contributed to the decline in cattle numbers. Until this past year, many areas of the nation have been in drought intermittently over the past 10 years and increasing amounts of land is being utilized for other purposes. In addition, the average age of the cow/calf producer is in the 60's and increasing over time.

With declining cattle inventories, beef production has also pulled back over the past few years. Further tightening of the domestic supply has been the trend with increasing exports and declining imports. Net beef supplies have been on the decline since 2006 and in 2011 and 2012 supplies are projected to be at the tightest level since the mid 1990's. Taking population growth into account, experts project that per capita net beef supplies will decline an additional 2 to 3 pounds over the next 2 years and average near 57 pounds in 2011-2012. In comparison, the average per capita net beef supply between 2000 and 2009 was 65 pounds. This is a dramatic drop and is the catalyst for higher beef and cattle prices in the future.

Beef Demand

Beef demand has been sliding downward every year since 2004 with significant losses occurring in 2008 and 2009. Currently, wholesale beef demand is on pace to be up 5 percent for 2010. This translates into dollars and cents for producers as a 5 percent improvement in demand adds approximately \$3 to \$4/cwt to fed cattle prices. Beef demand is expected to continue its recovery in 2011 and 2012 as the US and global economies slowly rebound. Two of the biggest economic

variables that will continue to be a drag on consumers and beef demand are the housing crisis and the high unemployment rate.

Retail beef prices are trending higher and will move to record high levels due to smaller supplies and a recovering economy. Retail beef prices will be expected to continue climbing in 2011 and 2012 as per capita beef supplies continue to decline due to smaller domestic beef production and increasing exports.

In North Dakota

Since it is impossible to isolate our North Dakota consumers and our North Dakota beef supply from the national and international factors mentioned previously, we have seen the effects on our state's beef industry. For the third consecutive year the ND Ag Statistics Service reported a drop in the inventory of cattle and calves in ND. Our cow herd numbers are also decreasing by 10's of thousands of cows per year. When you consider the fact that our cow herd is our factory, this is a trend that most do not want to see continue. The direct impact on the ND Beef Commission will be seen as fewer calves are born to a decreasing cow herd. Since income for the Beef Commission is based solely on the sale of cattle, less cattle going to market means less checkoff dollars collected and less funds for demand building programs.

While most beef production factors are outside the control of the beef checkoff program, there will continue to be several things that the beef checkoff program will address to increase the possibility that consumers will choose beef over the competition. This includes continually increasing the knowledge pool when it comes to beef research, beef nutrition, beef safety, new product development, and confirming beef's role in a healthful diet. We will also continue to take the positive message about beef to consumers through beef promotion programs, public relations efforts, and education programs. Our objective will also always be to protect and defend beef and the beef industry from those that try to turn consumers away from beef.

Requests for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the ND Beef Commission, 4023 State Street, Bismarck, ND 58503.

Financial Statements

Balance Sheet

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 174,160	\$ 217,873
Investments	249,000	299,000
Assessments receivable	52,060	52,888
Interest receivable	310	500
Total assets	<u>\$ 475,530</u>	<u>\$ 570,261</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 79,163	\$ 31,484
Accrued payroll	15,912	15,506
Due to Cattlemen's Beef Board	57,804	61,886
Due to the National Cattlemen's Beef Association	18,432	19,755
Due to other states	1,237	1,661
Total liabilities	<u>\$ 172,548</u>	<u>\$ 130,292</u>
 Fund Balance:		
Unreserved:		
Undesignated	\$ 302,982	\$ 439,969
Total fund balance	<u>\$ 302,982</u>	<u>\$ 439,969</u>
Total liabilities and fund balance	<u>\$ 475,530</u>	<u>\$ 570,261</u>

See Notes to the Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Fiscal Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>Revenues</u>		
Gross assessment revenues	\$ 1,187,756	\$ 1,214,524
Less:		
Assessment revenue remitted to other states	(32,563)	(27,396)
Assessment revenue remitted to Cattlemen's Beef Board	(577,561)	(593,288)
Net assessment revenues	<u>\$ 577,632</u>	<u>\$ 593,840</u>
Interest income	7,301	10,165
Beef gift certificates	17,620	23,205
Other revenue	4,741	14,762
Total revenues	<u>\$ 607,294</u>	<u>\$ 641,972</u>
<u>Expenditures</u>		
Program expenditures:		
International promotion	\$ 17,200	\$ 21,911
Promotion	46,753	56,965
Research	113,103	1,350
Consumer information	138,805	151,552
Industry information		10,229
National program development	167,447	172,514
Total program expenditures	<u>\$ 483,308</u>	<u>\$ 414,521</u>
Beef gift certificates	\$ 17,620	\$ 23,205
Administration	243,353	238,799
Total expenditures	<u>\$ 744,281</u>	<u>\$ 676,525</u>
Revenues over expenditures	<u>\$ (136,987)</u>	<u>\$ (34,553)</u>
Fund Balance, Beginning of Year	<u>\$ 439,969</u>	<u>\$ 474,522</u>
Fund Balance, End of Year	<u>\$ 302,982</u>	<u>\$ 439,969</u>

See Notes to the Financial Statements.

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The responsibility for these financial statements, the internal control structure, and compliance with laws and regulations belongs to the management of the North Dakota Beef Commission. A summary of the significant accounting policies follows:

A. Reporting Entity

For financial reporting purposes, the North Dakota Beef Commission includes all funds, programs, and activities over which it is financially accountable. The North Dakota Beef Commission does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Beef Commission 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.

The North Dakota Beef Commission was established by NDCC chapter 4.1-3, and is vested with the powers to collect and expend an assessment of one dollar for each head of cattle sold within the state or from the state by residents of North Dakota. The Commission's responsibilities are to provide and participate in programs to increase the consumption of domestic beef through such means as advertising, research, consumer information, industry information, sales promotion, and education, but at no time may false or unwarranted claims be made on behalf of the beef industry. Additional responsibilities are to support beef promotion, research, and education activities of the national beef promotion and marketing organizations. The Commission is also to initiate, encourage, and sponsor research designed to solve problems in the beef industry and to enhance the sale and production of North Dakota beef cattle.

B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. In accordance with section 4.1-03-16 these activities are funded on a continuing appropriation basis from a special revenue fund, fund 229 (the Beef Commission operating fund).

C. Fund Financial Statements

Separate fund financial statements are provided for the Beef Commission governmental fund.

D. Fund Accounting Structure

The Commission 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 Commission reports the Beef Commission'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 consumption of domestic beef through such means as advertising, research, consumer information, industry information, sales promotion, and education of the beef industry within the state.

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 as 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.

Major revenues that are susceptible to accrual include assessments and interest. All revenues are determined to be available if collected within one year of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due and payable.

F. Cash and Cash Equivalents

Cash and cash equivalents includes all funds deposited with the Bank of North Dakota.

G. Investments

Investments include certificates of deposit that are reported at cost.

H. Receivables

Receivables include interest and assessments receivable.

NOTE 2 ORGANIZATION AND RELATED PARTY TRANSACTIONS

As stated in Note 1, the Commission is an agency of the state of North Dakota and as such, other state agencies of the state and political subdivisions are related parties.

NOTE 3 DEPOSITS

Custodial Credit Risk

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.

Deposits of the Beef Commission at June 30, 2010 and 2009 include \$158,558 and \$217,873 respectively, of deposits at the Bank of North Dakota of interest-bearing operating cash under the control of the State Treasurer's Office as required by law.

These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the state of North Dakota through NDCC Section 6-09-10. As of June 30, 2010, \$176,666 of the Commission's bank balance of \$425,646 was exposed to custodial credit risk. As of June 30, 2009, \$234,513 of the Commission's bank balance of \$539,586 was exposed to custodial credit risk.

NOTE 4 GENERAL LONG TERM DEBT

	Balance			Balance	Amounts Due
	<u>7/1/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2010</u>	<u>Within One Year</u>
Governmental Activities:					
Other long-term liabilities:					
Compensated absences	<u>\$ 28,199</u>	<u>\$ 11,785</u>	<u>\$ 12,985</u>	<u>\$ 26,999</u>	<u>\$ 12,985</u>

	Balance			Balance	Amounts Due
	<u>7/1/2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2009</u>	<u>Within One Year</u>
Governmental Activities:					
Other long-term liabilities:					
Compensated absences	<u>\$ 23,086</u>	<u>\$ 12,633</u>	<u>\$ 7,520</u>	<u>\$ 28,199</u>	<u>\$ 7,520</u>

NOTE 5 PENSION PLAN

The Beef Commission participates in the North Dakota Public Employees' Retirement System administered by the state of North Dakota. The following is a brief description of the plans.

Defined Benefit Pension Plan – NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Beef Commission. 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 a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred 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.

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The Beef Commission has implemented a salary reduction agreement and is currently contributing the employees' share. The Beef Commission is required to contribute 4.12% of each participant's salary as the employer's share. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The Beef Commission's required and actual contributions to NDPERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$ 12,751, \$12,192, and \$11,521, 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 1214, Bismarck, ND 58502-1214.

NOTE 6 RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Commission participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was 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 Commission pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating 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 one million dollars per occurrence during a twelve month period. The State Bonding Fund currently provides the Commission with blanket fidelity bond coverage in the amount of \$300,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The North Dakota Workforce Safety & Insurance is 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 year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 7 LEASE COMMITMENTS

The Commission has two operating leases. One is for office space and the other for postage machine rent. The office space lease expires in 2011 and the equipment lease expires in 2012. Total rent expense for the years ended June 30, 2010 and 2009 was \$12,882 and \$12,712, respectively.

Lease commitments are as follows:

	<u>Operating Leases</u>
2011	\$ 13,052
2012	\$ 801

NOTE 8 OUTSIDE CHECKING ACCOUNT

The North Dakota Beef Commission has an outside checking account used for the “Beef Gift Certificate” program. Individuals would write out checks to the North Dakota Beef Commission and receive a check back from the gift certificate account for the same amount. The account has a bank balance of \$18,108 as of June 30, 2010, which consists of outstanding checks accumulated since the account was opened.

NOTE 9 COMMITMENTS

As of June 30, 2009, the North Dakota Beef Commission has \$40,000 remaining to be paid on contracts with NDSU Beef Systems Center of Excellence for research and development.

NOTE 10 POSTRETIREMENT BENEFITS

Former employees receiving retirement benefits under the Retirement Plan for Employees of the North Dakota Beef Commission are eligible to participate in the Retiree Health Benefits Fund, a cost-sharing multiple-employer plan, as administered by the Public Employees Retirement Board. During each month of employment, the Beef Commission contributes 1% of each employee’s salary into the Retiree Health Benefits Fund. Total contributions for the fiscal years ending June 30, 2010, 2009, and 2008 were \$1,377, \$1,337, and \$1,263, respectively.

Detailed Schedule of Expenditures

For the Fiscal Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Administration		
Compensation:		
Salaries	\$ 137,696	\$ 133,685
Benefits	53,527	47,191
Per diem - Commissioners	4,170	4,890
Operations:		
Rent	11,814	11,644
Audit	4,051	3,953
Compliance program	1,480	2,412
Telephone	2,052	1,861
Equipment, service, programming	4,630	2,378
Supplies, postage, printing, legal	2,982	3,748
Insurance	969	942
Travel - staff	6,293	8,970
Travel - commissioners	13,689	17,125
Total Administration	<u>\$ 243,353</u>	<u>\$ 238,799</u>
Program Expenditures		
International Promotion	\$ 17,200	\$ 21,911
Promotion:		
Advertising	41,197	56,835
Retail and food service	5,556	130
Research	113,103	1,350
Consumer information:		
Health	3,816	4,672
Education	32,940	26,305
Public relations and media	67,639	67,935
Cattlemen	17,249	19,190
Producer information	17,161	33,450
Industry Information		10,229
National Program Development	167,447	172,514
Total Program Expenditures	<u>\$ 483,308</u>	<u>\$ 414,521</u>

See Notes to the Financial Statements.

Supplementary Information

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?*

An unqualified (clean) opinion was given on the financial statement.

- 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?*

The North Dakota Beef Commission has implemented all recommendations from the prior audit.

- 6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

No, a management letter was not issued.

LAFRC Audit Communications

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, and no management conflicts of interest, contingent liabilities, or significant unusual transactions 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.*

The North Dakota Beef Commission's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

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 operations of the state.

Governance Communication

November 4, 2010

To: The Members of the North Dakota Beef Commission
The Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the general fund of the North Dakota Beef Commission for the year ended June 30, 2010, and have issued our report thereon dated November 4, 2010. 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 Beef Commission 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 2010. 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.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Management has informed us they used all relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. The Board of Commissioners may wish to monitor throughout the year the process used to compute these accounting estimates.

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 November 4, 2010.

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. It should be noted that the retention of the State Auditor is a matter of state law and is not under the control of the North Dakota Beef Commission.

This information is intended solely for the use of members of the North Dakota Beef Commission and management of the North Dakota Beef Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Fred Ehrhardt, CPA
Audit Supervisor

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