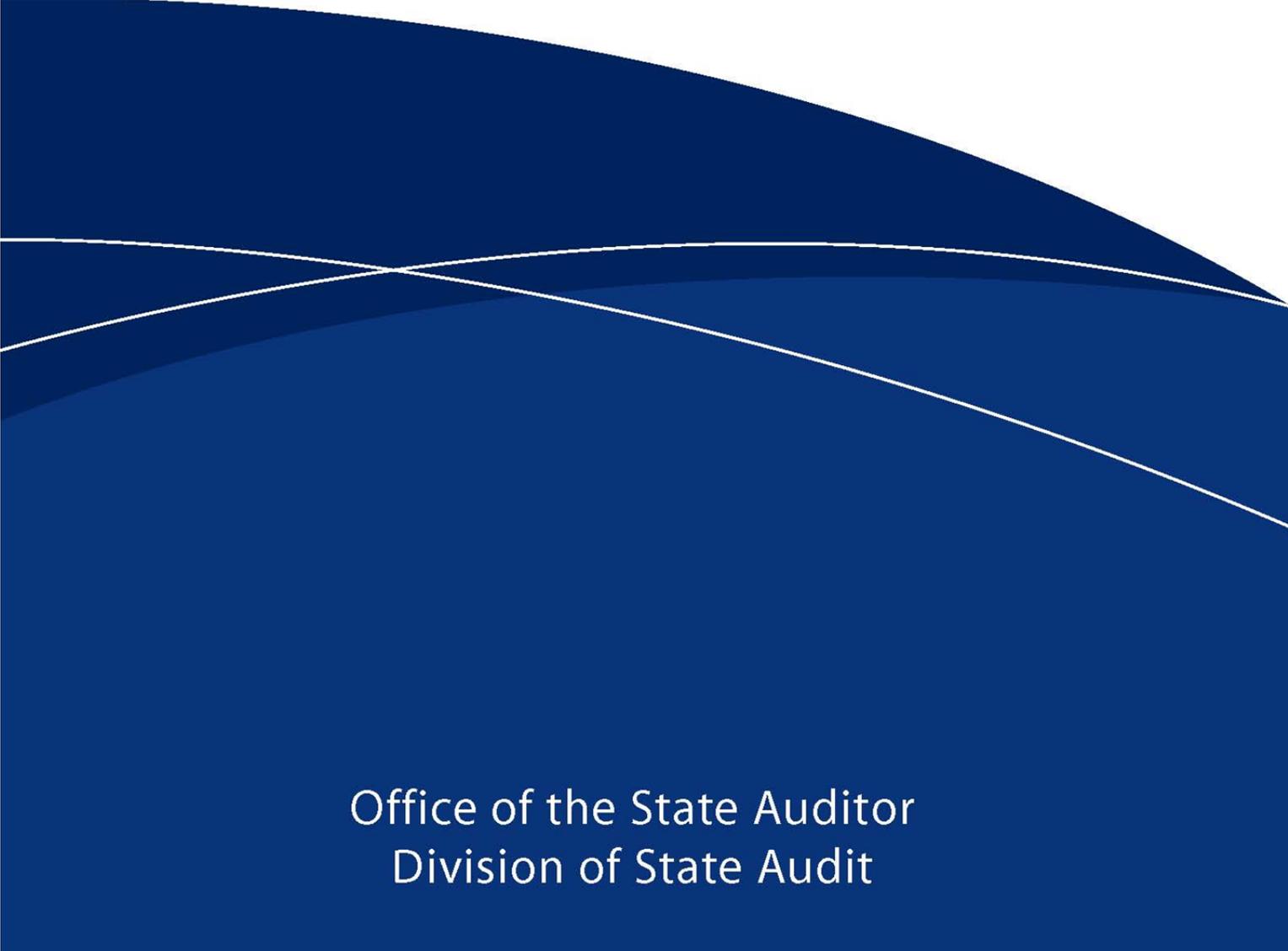


NORTH DAKOTA BEEF COMMISSION  
BISMARCK, NORTH DAKOTA

# Audit Report

For the Fiscal Years Ended  
June 30, 2011 and June 30, 2010

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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## *Independent Auditor's Report*

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Honorable Jack Dalrymple, 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, a department of the state of North Dakota, as of and for the fiscal years ended June 30, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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.

As discussed in Note 8 to the financial statements, the North Dakota Beef Commission implemented a new accounting standard for the year ended June 30, 2011. The new standard is GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions."

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2011 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

October 21, 2011



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*

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Honorable Jack Dalrymple, 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, 2011, and have issued our report thereon dated October 21, 2011. 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*. However we did note a certain inconsequential instance of noncompliance that we have reported to the management of the North Dakota Beef Commission in a management letter dated October 21, 2011.

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

October 21, 2011



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

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Honorable Jack Dalrymple, 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, 2011, and have issued our report thereon dated October 21, 2011.

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

October 21, 2011

## *Management's Discussion and Analysis*

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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, 2011 and 2010.

### **FINANCIAL HIGHLIGHTS**

- The fund balance of the Commission as of June 30, 2011, 2010, and 2009 was \$262,777 \$302,982, and \$439,969, respectively.
- The Commission's fund balance decreased for the years ending June 30, 2011, 2010, and 2009 by \$40,205, \$136,987, and \$34,553, 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 spendable 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 fund financial statements.

**Fund Balance as of June 30, 2011, 2010 and 2009****Revenues, Expenditures and Changes in Fund Balance For the Fiscal Years Ending June 30, 2011, 2010 and 2009**

	2011	2010	2009		2011	2010	2009
Total Assets	\$343,097	\$475,530	\$570,261	<u>Revenues</u>			
Total Liabilities	\$80,320	\$172,548	\$130,292	Net Assessment Revenue	\$569,011	\$577,632	\$593,840
Fund Balance	\$262,777	\$302,962	\$439,969	Interest Income	4,280	7,301	10,165
				Beef Gift Certif.	18,195	17,620	23,205
				Other Revenue	7,725	4,741	14,762
				Total Revenues	\$599,211	\$607,294	\$641,972
				<u>Expenditures</u>			
				Program Expenditures	\$366,391	\$483,308	\$414,521
				Administration	254,829	243,353	238,799
				Beef Gift Certificates	18,195	17,620	23,205
				Total Expenditures	\$639,415	\$744,281	\$676,525
				Decrease in Fund Balance	\$(40,205)	\$(136,987)	\$(34,553)

**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 \$262,777 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 significant changes over the past decade. The state of the economy has had a major impact on the industry as has Mother Nature with severe droughts, fires, floods, and weather events across the country. Today, the US beef cow herd continues to shrink which is the industry's factory for the future. In fact, 2011 will be the 14<sup>th</sup> year of the last 16 that the beef cow herd has declined. This has led to the fact that the size of the total US cattle inventory is as low as any since the 1950's.

Fortunately for the beef industry, foreign trade in beef has been a huge driver in 2011. Exports are rising and imports are declining. Demand for beef is strong, both internationally and at home. 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. The highest growth rates for US key markets are in the Asian region including South Korea, Taiwan, Hong Kong, and the Philippines. Market access to Japan is showing a glimmer of hope that the age restriction for beef from cattle may soon be raised to 30 months of age which would be a huge item in terms of US beef exports. Three long-awaited free trade agreements were finally signed in October with South Korea, Colombia, and Panama, which will present great opportunities for beef exports into 2012.

US beef exports are expected to be up 21 to 25 percent for the year and imports down 11 to 12 percent. This will exceed all past export records with an estimate of the value of beef exported exceeding \$5 billion for the first time in history. Beef exports as a percent of US beef production will be at the highest level in history, approaching 14%. The value of these exports is equal to over \$200 per head. Overall, expect continued strong demand for US beef globally, particularly from Asia.

### *Cattle/Beef Supplies:*

The US beef cow herd is again expected to decline by 1 percent, or 300,000 head, by the end of 2011. This will be the 14<sup>th</sup> year in the last 16 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 1950's. Many factors have contributed to the decline in cattle numbers. The primary factor will be the severe drought in the southern third of the country, centered in Texas. In addition, alternative land use continues with more land moving into crops due to record high grain values, as well as increasing amounts of land being used for recreational uses and urban sprawl. Record high input cost and the average producer age, which by most surveys would be in the 60's and increasing over time, are also limiting factors.

Despite declining cattle inventories, beef production levels have held up over the past few years due to large cow and heifer slaughter levels and the continuation of the long-term trend of heavier weights. The biggest factor in net beef supplies has been the trend of increasing exports, which are up substantially over the past few years, and declining imports. Net beef supplies have been on the decline since 2006 and are projected in 2012 and 2013 to be at the tightest levels since the mid 1990's. Taking population growth into account, we would project that per capita net beef supplies will decline an additional 2 to 3 pounds over the next 2 years and average near 56 pounds in 2012-2013. In comparison, the average per capita net beef supply between 2000 and 2009 was 65 pounds. This has been and will continue to be a dramatic drop and is the catalyst for continued high beef and therefore cattle prices moving forward.

### *Beef Demand:*

Beef demand so far in 2011 has continued the recovery started last year and at the wholesale level is up about 7 percent compared to the first half of 2010. Growth in demand for the second half of 2011 and going into 2012 is expected to slow, but maintain the current year over year growth experienced to this point in 2011. Looking at demand for 2012, there are several key variables to watch that will determine whether or not demand increases can continue or if we will take a step back after two good years of demand recovery. If demand is up 8 percent for 2011, when combined with the 6.5 percent increase seen in 2010, that would be the biggest two year combined growth experienced in at least 20 years. Again, beef exports are having a positive impact on beef demand. As the global economy continues to grow and their standards of living increase, the

demand for a more protein-based diet will also continue to grow. On the flip side, the US economy continues to drag along with high unemployment and the housing crisis keeping US consumers more budget conscious and slow to return to eating at restaurants at the level experienced pre-recession.

The USDA All-Fresh retail beef price is on pace to average close to \$4.50/lb this year, up 48 cents from 2010 and by far the biggest annual increase in history. With such a big jump in price, beef featuring will likely be limited again in 2012 as it has been so far in 2011, which will limit consumer retail demand as they remain cautious with spending.

*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 fifth consecutive year the ND Ag Statistics Service reported a drop in the inventory of cattle and calves in ND. Our cow herd numbers, while showing a trend of decreasing numbers over the past ten years, actually saw a slight increase in 2011 over 2010. However, those in livestock marketing across the state continue to see cows, heifers and entire herds being sold at a pace that they term as alarming. 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 and as fewer cattle change hands from rancher to backgrounder to feeder. Since income for the Beef Commission is based solely on the sale of cattle, less cattle going to market means less check-off dollars collected and less funds for demand building programs funded by ND producers both at the state and national level.

While most beef production factors are outside the control of the beef check-off program, there will continue to be several things that the beef check-off 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*

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### *Balance Sheet*

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 60,095	\$ 174,160
Investments	249,000	249,000
Assessments receivable	33,832	52,060
Interest receivable	170	310
Total assets	<u>\$ 343,097</u>	<u>\$ 475,530</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 11,627	\$ 79,163
Accrued payroll	16,632	15,912
Due to Cattlemen's Beef Board	38,526	57,804
Due to the National Cattlemen's Beef Association	12,327	18,432
Due to other states	1,208	1,237
Total liabilities	<u>\$ 80,320</u>	<u>\$ 172,548</u>
Fund Balance:		
Restricted	<u>\$ 262,777</u>	<u>\$ 302,982</u>
Total fund balance	<u>\$ 262,777</u>	<u>\$ 302,982</u>
Total liabilities and fund balance	<u>\$ 343,097</u>	<u>\$ 475,530</u>

The accompanying notes are an integral part of the financial statements.

## *Statement of Revenues, Expenditures, and Changes in Fund Balance*

For the Fiscal Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>Revenues</u>		
Gross assessment revenues	\$ 1,174,015	\$ 1,187,756
Less:		
Assessment revenue remitted to other states	(35,850)	(32,563)
Assessment revenue remitted to Cattlemen's Beef Board	(569,154)	(577,561)
Net assessment revenues	<u>\$ 569,011</u>	<u>\$ 577,632</u>
Interest income	4,280	7,301
Beef gift certificates	18,195	17,620
Other revenue	7,725	4,741
Total revenues	<u>\$ 599,211</u>	<u>\$ 607,294</u>
<u>Expenditures</u>		
Program expenditures:		
International promotion	\$ 26,123	\$ 17,200
Promotion	37,603	46,753
Research	22,203	113,103
Consumer information	115,663	138,805
National program development	164,799	167,447
Total program expenditures	<u>\$ 366,391</u>	<u>\$ 483,308</u>
Beef gift certificates	\$ 18,195	\$ 17,620
Administration	254,829	243,353
Total expenditures	<u>\$ 639,415</u>	<u>\$ 744,281</u>
Revenues over expenditures	<u>\$ (40,204)</u>	<u>\$ (136,987)</u>
Fund Balance, Beginning of Year	<u>\$ 302,982</u>	<u>\$ 439,969</u>
Fund Balance, End of Year	<u><u>\$ 262,778</u></u>	<u><u>\$ 302,982</u></u>

The accompanying notes are an integral part of 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 NDCC section 4.1-03-16 these activities are funded on a continuing appropriation basis from a special revenue fund (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.

#### **I. Fund Balance**

The difference between fund assets and liabilities is reported as "Fund Balance" on the balance sheet. Fund balance is categorized as nonspendable, restricted, committed, assigned, or unassigned. The North Dakota Beef Commission's fund balance is restricted by enabling legislation contained in the North Dakota Century Code Chapter 4.1-03 to be only spent pursuant to that Chapter.

### **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**

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. All of the deposits of the Commission are at the Bank of North Dakota which are guaranteed by the state of North Dakota through NDCC Section 6-09-10.

**NOTE 4 GENERAL LONG TERM DEBT**

	<u>Balance</u> <u>7/1/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2011</u>	<u>Amounts Due</u> <u>Within One Year</u>
Other long-term liabilities:					
Compensated absences	\$ 26,999	\$ 15,828	\$ 13,176	\$ 29,651	\$ 13,176

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

**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, 2011, 2010, and 2009 were \$13,260, \$12,751, and \$12,192, 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      POST-RETIREMENT 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, 2011, 2010, and 2009 were \$1,432, \$1,377, and \$1,337, respectively.

**NOTE 8      CHANGE IN ACCOUNTING PRINCIPAL**

As required by generally accepted accounting principles, the North Dakota Beef Commission implemented GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions" for the year ended June 30, 2011. The change resulted in reporting fund balance as restricted as the Commission's fund balance can only be spent pursuant to NDCC Chapter 4.1-03.

## *Detailed Schedule of Expenditures*

For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Administration		
Compensation:		
Salaries	\$ 143,204	\$ 137,696
Benefits	54,657	53,527
Per diem - Commissioners	8,470	4,170
Operations:		
Rent	11,984	11,814
Audit	4,153	4,051
Compliance program	1,515	1,480
Telephone	1,799	2,052
Equipment, service, programming	3,164	4,630
Supplies, postage, printing, legal	2,538	2,982
Insurance	935	969
Travel - staff	7,399	6,293
Travel - commissioners	15,011	13,689
Total Administration	<u>\$ 254,829</u>	<u>\$ 243,353</u>
Program Expenditures		
International Promotion	\$ 26,123	\$ 17,200
Promotion:		
Advertising	36,233	41,197
Retail and food service	1,370	5,556
Research	22,203	113,103
Consumer information:		
Health	6,184	3,816
Education	14,037	32,940
Public relations and media	74,721	67,639
Cattlemen	9,160	17,249
Producer information	11,561	17,161
National Program Development	164,799	167,447
Total Program Expenditures	<u>\$ 366,391</u>	<u>\$ 483,308</u>

## *Supplementary Information*

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### *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 report?*

There were no recommendations in the prior North Dakota Beef Commission audit.

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

Yes, a management letter was issued and is included on page 22 of this report, along with management's response.

## *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 North Dakota Beef Commission.

## *Governance Communication*

October 21, 2011

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, 2011, and have issued our report thereon dated October 21, 2011. 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. Management implemented a new accounting standard for the year ended June 30, 2011. The new standard is GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." No other new accounting policies were adopted and no other applications of existing policies were changed during 2011. 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. There were no known or likely misstatements that we needed to report to management.

## **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 October 21, 2011.

## **Management Consultations with Other Independent Accountants**

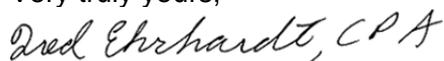
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination 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

## *Management Letter (Informal Recommendation)*

October 21, 2011

Nancy Jo Bateman, Executive Director  
North Dakota Beef Commission  
4023 State Street  
Bismarck, North Dakota 58503

Dear Ms. Bateman:

We have performed an audit of the North Dakota Beef Commission for the year ended June 30, 2011, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Beef Commission's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted a certain condition we did not consider reportable within the context of your audit report. We want to present our recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider its status.

The following present our informal recommendation.

### **EXPENDITURES**

Informal Recommendation 11-1: We recommend the North Dakota Beef Commission follow Office of Management and Budget procurement procedures.

Management of the North Dakota Beef Commission agreed with this recommendation.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

*Fred Ehrhardt, CPA*

Fred Ehrhardt, CPA  
Auditor in-charge

You may obtain audit reports on the internet at:

[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

or by contacting the  
Division of State Audit

Office of the State Auditor  
600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060

(701) 328-2241