

# North Dakota Office of the State Auditor

## ND MILL AND ELEVATOR ASSOCIATION GRAND FORKS, NORTH DAKOTA

Audit Report for the Years Ended June 30, 2019 and 2018  
Client Code 475



North Dakota State Auditor  
Joshua C. Gallion

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Vance Taylor, President and CEO  
Ed Barchenger, Chief Financial Officer  
Cathy Dub, Controller

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## *Independent Auditor's Report*

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Members of the Legislative Assembly

Industrial Commission

Vance Taylor, President and CEO  
North Dakota Mill and Elevator Association

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the business-type activities of the North Dakota Mill and Elevator Association, an agency of the state of North Dakota, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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 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 of 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 the audit evidence we 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 respective financial position of the business-type activities of the North Dakota Mill and Elevator Association as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of the North Dakota Mill and Elevator Association are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the state that is attributable to the transactions of the Mill and Elevator Association. They do not purport to, and do not present fairly the financial position of the state of North Dakota as of June 30, 2019 and 2018, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America required the management's discussion and analysis, the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions for pensions, the Schedule of Employer's Share of Net OPEB Liability and the Schedule of Employer Contributions for OPEB, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Dakota Mill and Elevator Association's basic financial statements. The Schedule of Appropriations is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Appropriations is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Appropriations is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2019 on our consideration of the North Dakota Mill and Elevator Association'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion of the effectiveness of the North Dakota Mill and Elevator's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Mill and Elevator Association's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota

October 17, 2019

## *Management's Discussion and Analysis*

This section of the North Dakota Mill and Elevator Association's annual financial report presents management's discussion and analysis of the Mill's financial performance during the fiscal year that ended June 30, 2019. Please read this information in conjunction with the financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

#### Condensed Financial Data

	FY 2019	FY 2018	FY 2017
Current Assets	\$ 67,936,435	\$ 76,866,087	\$ 63,144,511
Noncurrent Assets	476,558	447,944	420,899
Capital Assets	109,844,536	92,904,923	90,094,338
Total Assets	<u>\$ 178,257,529</u>	<u>\$ 170,218,954</u>	<u>\$ 153,659,748</u>
Deferred Outflow of Resources	<u>\$ 6,990,699</u>	<u>\$ 7,782,567</u>	<u>\$ 2,885,560</u>
Current Liabilities	\$ 52,358,632	\$ 67,535,503	\$ 52,408,316
Noncurrent Liabilities	33,400,540	13,732,093	9,134,426
Total Liabilities	<u>\$ 85,759,172</u>	<u>\$ 81,267,596</u>	<u>\$ 61,542,742</u>
Deferred Inflow of Resources	<u>\$ 1,284,345</u>	<u>\$ 1,010,596</u>	<u>\$ 2,148,541</u>
Invested in Capital Assets	\$ 109,844,536	\$ 92,904,923	\$ 90,094,338
Unrestricted	(11,639,825)	2,818,405	2,759,687
Total Net Position	<u>\$ 98,204,711</u>	<u>\$ 95,723,328</u>	<u>\$ 92,854,025</u>
Operating Revenue			
Gross Sales	\$ 312,342,791	\$ 338,852,593	\$ 287,986,843
Sales Deductions	(66,745,464)	(68,277,814)	(64,432,401)
Net Sales	<u>\$ 245,597,327</u>	<u>\$ 270,574,780</u>	<u>\$ 223,554,442</u>
Nonoperating Revenue			
Interest Income	9,246	3,744	2,079
Miscellaneous	80,392	132,321	41,850
Total Revenues	<u>\$ 245,686,965</u>	<u>\$ 270,710,845</u>	<u>\$ 223,598,371</u>
Operating Expenses			
Material Cost	\$ 197,054,152	\$ 219,698,840	\$ 181,282,890
Manufacturing, Selling, General	36,233,606	35,707,375	31,961,487
Non-operating Expenses			
Interest Expense	1,753,116	1,089,949	598,209
Other	23,880	26,405	36,621
Total Expenses	<u>\$ 235,064,754</u>	<u>\$ 256,522,569</u>	<u>\$ 213,879,207</u>
Revenue Over Expenses	\$ 10,622,211	\$ 14,188,276	\$ 9,719,164
Transfer to Industrial Commission	(41,392)	(41,393)	(42,931)
Transfer to General Fund	(7,568,325)	(10,109,147)	(4,616,603)
Transfer to Ag Fuel Tax Fund	(531,111)	(709,414)	(485,958)
Change in Net Position	<u>\$ 2,481,383</u>	<u>\$ 3,328,322</u>	<u>\$ 4,573,672</u>
Beginning Net Position, as restated	<u>95,723,328</u>	<u>92,395,006</u>	<u>88,280,353</u>
Ending Net Position	<u>\$ 98,204,711</u>	<u>\$ 95,723,328</u>	<u>\$ 92,854,025</u>

- Gross sales reached \$312,343,000.
- During the fiscal year, the Mill shipped 14,661,000 hundredweight of flour.
- The Mill made a profit of \$10,622,000.
- Mill operations provided more than \$232,446,000 to the region and another \$539,275,000 in secondary economic activity for a total economic impact of more than \$771,721,000.

## RESULTS OF OPERATIONS

Certain operating information is set forth below, as a percentage of gross sales for the fiscal years ended June 30, 2019, June 30, 2018 and June 30, 2017:

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>
Gross Margin	15.5%	15.0%	14.7%
Material Costs	63.1%	64.8%	62.9%
Operating Costs	11.6%	10.5%	11.1%
Profits	3.4%	4.2%	3.4%

Gross sales reached \$312,343,000 for the fiscal year compared to \$338,853,000 last year and \$287,987,000 in fiscal year 2017. Sales of spring wheat flour were 13,701,000 hundredweight or 93 percent of our total sales while sales of durum products were 960,000 hundredweight. This compares to sales of 14,164,000 hundredweight of spring wheat flour and 1,125,000 hundredweight of durum products last year. Bulk flour sales represent 82 percent of the flour sold. Flour packed in bags accounted for 18 percent of the flour sold.

As a result of this sales volume, the Mill spent more than \$183,640,000 buying wheat and durum. This is down from the previous year purchases of \$198,218,000 and up from purchases in fiscal year 2017 of \$152,922,000. In fiscal year 2019 the mill settled the purchase of 30,498,000 bushels of wheat and durum while in fiscal year 2018 the mill settled the purchase of 32,486,000 bushels. The majority of the grain purchased is from North Dakota growers or grain elevators.

In addition to spending over \$183,640,000 on grain, most of which went to North Dakota farmers, the Mill also spent \$29,717,000 with other North Dakota based suppliers. Payroll costs for the North Dakota Mill were \$19,089,000 for the year ended June 30, 2019. These three items when added together show that the Mill provided a direct economic impact to the region of over \$232,446,000. A North Dakota State University study stated that for every dollar in direct economic activity from wheat processing, another \$2.32 was generated in secondary economic activity. Thus, the Mill produced \$539,275,000 in secondary economic activity resulting in a total economic impact of more than \$771,721,000.

Operating costs were \$36,234,000 compared to \$35,707,000 last year and \$31,961,000 in fiscal year 2017. This is an increase of \$526,000 from last year. The primary causes for this increase in operating cost is due to the increase in fumigation costs, increases in wages and benefits, increased insurance costs, and increased depreciation costs. Operating cost per hundredweight of production increased to \$2.46 from \$2.34 in fiscal year 2018 and \$2.25 in fiscal year 2017.

Gross margins as a percent of gross sales increased to 15.5 percent from 15.0 percent in fiscal year 2018 and 14.7 percent in fiscal year 2017. Profits as a percent of gross sales was 3.4 percent compared to 4.2 percent last year and the 3.4 percent in the FY 2017. The Mill experienced a profit of \$10,622,000 compared to a profit of \$14,188,000 last year.



## **LIQUIDITY**

The North Dakota Mill's cash requirements relate primarily to capital improvements and a need to finance inventories and receivables based on raw material costs and levels. These cash needs are expected to be fulfilled by the Mill through operations and an established operating line of credit with the Bank of North Dakota. The Mill has a \$60,000,000 operating line of credit with the Bank of North Dakota.

## **CASH FLOWS FROM OPERATIONS**

Operating activities for the year ended June 30, 2019 provided cash of \$25,984,000 compared to \$9,997,000 in fiscal year 2018 and cash of \$16,929,000 in fiscal year 2017. Cash was used primarily for capital projects and transfers to APUF and the General Fund. There was an operating profit for this same period of \$12,310,000 compared to \$15,169,000 in fiscal year 2018 and \$10,310,000 in 2017.

## **CASH FLOWS FROM FINANCING ACTIVITIES**

The North Dakota Mill had \$25,000,000 of short-term debt outstanding and payable to the Bank of North Dakota on June 30, 2019 compared to \$34,000,000 last year and \$29,000,000 in fiscal year 2017. The Mill also had \$19,344,000 in long term debt outstanding and payable to the Bank of North Dakota on June 30, 2019.

## **NET POSITION**

Current assets decreased \$8,930,000 from last year. This decrease from last year is due primarily to decreases in accounts receivables and inventories. Accounts receivables declined \$9,870,000 while inventories fell \$524,000 from last year's values.

The carrying value of capital assets increased \$16,940,000 to \$109,845,000 for the year ended June 30, 2019. The North Dakota Mill completed several capital projects throughout the year. For more detailed information regarding capital assets and long-term debt activity see the Notes to the Financial Statements.

Current liabilities decreased \$16,868,000 from last year. The major changes occurred in notes payable which decreased \$9,000,000, amount due to state funds decreased \$2,719,000, and grain payables that declined \$2,574,000. The notes payable is to the Bank of North Dakota. The total net position increased by \$2,481,000, resulting in an improvement in overall financial position.

## **COMMODITY PRICE RISK**

The North Dakota Mill utilizes futures contracts offered through regulated commodity exchanges to reduce risk. The Mill is exposed to risk of loss in the market value of inventories and fixed purchase and sales contracts. To reduce this risk, opposite and offsetting futures positions are taken.

## **INDUSTRY**

U.S. annual wheat flour production increased slightly in 2018 to 427 million hundredweights, or up less than 1% from 2017. Production of whole wheat flour in the U.S. was estimated at 22.3 million hundredweights which down 1% from 2017. Durum flour and semolina production was 32

million hundredweights, up less than 1% from 2017. Excess flour milling capacity and high wheat and durum prices continue to put downward pressure on margins. Per capita flour consumption of 132 pounds in 2018 is approximately flat with the prior year. We expect grain and financial markets to continue to be volatile.

North Dakota farmers battled wet conditions across the state but produced an adequate quality crop considering the growing conditions. Average spring wheat protein is estimated to be 14.6% this year. Spring wheat quality has an effect on flour quality. The crop this year is working well for our customers.

## *Financial Statements*

### **Comparative Statement of Net Position**

<b>ASSETS</b>	June 30, 2019	June 30, 2018
Current assets:		
Cash and cash equivalents	\$ 1,754,988	\$ 638,868
Receivables, net (note 4)	39,350,917	49,221,368
Inventories (note 5)	25,394,997	25,918,862
Derivative instrument	15,750	
Prepaid expense	1,419,783	1,086,989
Total current assets	\$ 67,936,435	\$ 76,866,087
Noncurrent assets:		
Patronage capital credits	\$ 463,408	\$ 434,794
Other assets	13,150	13,150
Capital assets, net (note 6)	109,844,536	92,904,923
Total noncurrent assets	110,321,094	93,352,867
Total assets	\$ 178,257,529	\$ 170,218,954
 <b>DEFERRED OUTFLOW OF RESOURCES</b>		
Accumulated decrease in fair value of		
hedging derivatives		\$ 1,544,112
Derived from pensions	\$ 6,724,416	6,058,841
Derived from other post-employment benefits	266,283	179,614
Total deferred outflows of resources	\$ 6,990,699	\$ 7,782,567
 <b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and other liabilities (note 7)	\$ 17,568,113	\$ 21,172,830
Due to state general fund	7,568,325	10,109,147
Due to ag products utilization fund	531,111	709,413
Derivative instrument		1,544,113
Notes payable	25,000,000	34,000,000
Long-term liabilities - current portion		
Notes payable	1,691,083	
Total current liabilities	\$ 52,358,632	\$ 67,535,503
Noncurrent liabilities:		
Notes payable	\$ 17,653,057	
Compensated absences	1,091,292	\$ 1,117,895
Net other post-employment benefit liability	615,199	559,783
Net pension liability	14,040,992	12,054,415
Total noncurrent liabilities	33,400,540	13,732,093
Total liabilities	\$ 85,759,172	\$ 81,267,596
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Accumulated increase in fair value of		
hedging derivatives	\$ 15,750	
Derived from pensions	1,242,649	\$ 975,778
Derived from other post-employment benefits	25,946	34,818
Total deferred inflows of resources	\$ 1,284,345	\$ 1,010,596
 <b>NET POSITION</b>		
Invested in capital assets	\$ 109,844,536	\$ 92,904,923
Unrestricted	(11,639,825)	2,818,405
Total net position	\$ 98,204,711	\$ 95,723,328

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

## Comparative Statement of Revenues, Expenses, and Changes in Net Position

<b>OPERATING REVENUES</b>	June 30, 2019	June 30, 2018
Sales (net of sales deductions of \$66,745,464 and \$68,277,814, respectively)	\$ 245,597,327	\$ 270,574,780
Total operating revenues	\$ 245,597,327	\$ 270,574,780
<b>OPERATING EXPENSES</b>		
Material cost	\$ 197,054,154	\$ 219,698,839
Wages and benefits	19,088,505	18,956,606
Repairs and maintenance	2,495,109	2,633,756
Operating supplies	992,290	1,058,919
Utilities	4,265,165	4,379,960
Insurance	1,135,169	1,031,451
Outside services	1,366,085	1,048,004
Office supplies	95,402	109,393
Computer expense	222,138	233,460
Communications	68,079	66,716
Travel and entertainment	244,685	267,173
Employee expense	139,294	136,410
Safety expense	99,266	123,286
Postage and mailing	25,845	23,508
Advertising	130,503	138,904
Dues and subscriptions	185,396	160,729
Legal and professional	35,999	47,875
Depreciation	5,644,673	5,291,226
Total operating expenses	233,287,757	255,406,215
Operating income	\$ 12,309,570	\$ 15,168,565
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	\$ 9,246	\$ 3,744
Interest expense	(1,753,116)	(1,089,949)
Miscellaneous income	80,391	132,321
Other expense	(23,880)	(26,405)
Total nonoperating expenses	(1,687,359)	(980,289)
Gain before transfers	\$ 10,622,211	\$ 14,188,276
Transfer to state general fund	\$ (7,568,325)	\$ (10,109,147)
Transfer to ag products utilization fund	(531,111)	(709,414)
Transfer to Industrial Commission	(41,392)	(41,393)
Change in net position	\$ 2,481,383	\$ 3,328,322
Total net position - beginning of year as restated	95,723,328	92,395,006
Total net position - ending	\$ 98,204,711	\$ 95,723,328

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

## Comparative Statement of Cash Flows

	June 30, 2019	June 30, 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 322,293,634	\$ 328,844,991
Payments to suppliers	(278,113,542)	(301,929,958)
Payments to employees	(18,196,123)	(16,918,015)
Net cash provided by operating activities	\$ 25,983,969	\$ 9,997,018
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from noncapital debt	\$ 43,000,000	\$ 16,500,000
Principal paid on noncapital debt	(32,655,860)	(11,500,000)
Interest paid on noncapital debt	(1,753,116)	(1,089,949)
Ag promotion	10,892	27,206
Transfer to Industrial Commission	(41,392)	(41,392)
Transfer to state general fund	(10,109,147)	(4,616,603)
Transfer to ag products utilization fund	(709,414)	(485,958)
Net cash used by noncapital financing activities	\$ (2,258,037)	\$ (1,206,696)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	\$ (22,619,060)	\$ (8,155,422)
Net cash used by capital and related financing activities	\$ (22,619,060)	\$ (8,155,422)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income on investments	\$ 9,246	\$ 3,744
Net cash provided by investing activities	\$ 9,246	\$ 3,744
Net increase in cash and cash equivalents	\$ 1,116,118	\$ 638,644
Cash and cash equivalents, beginning	638,870	226
Cash and cash equivalents, ending	\$ 1,754,988	\$ 638,870

(Continued)

Comparative Statement of Cash Flows - Continued

<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	June 30, 2019	June 30, 2018
Operating income	\$ 12,309,570	\$ 15,168,565
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	5,644,673	5,291,226
Pension and OPEB expense	2,471,727	1,805,412
Other nonoperating income	80,392	132,321
Decrease (Increase) in receivables, net	9,870,451	(10,139,923)
Decrease (Increase) in inventories	523,865	(4,536,870)
(Increase) Decrease in prepaid expense	(332,794)	123,812
Increase in patronage capital credits	(28,614)	(27,046)
(Decrease) Increase in accounts payable	(2,972,232)	1,962,153
(Decrease) Increase in accrued payroll	(626,312)	908,393
Decrease in other liabilities	(3,724)	(15,810)
(Decrease) Increase in accrued sick and vacation pay	(29,053)	146,356
Increase in deferred outflows for pension	(923,980)	(821,571)
Total adjustments	<u>13,674,399</u>	<u>(5,171,547)</u>
Net cash provided by operating activities	<u>\$ 25,983,969</u>	<u>\$ 9,997,018</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 significant accounting policies, as summarized below and the financial statements for the North Dakota Mill and Elevator Association (Mill) are in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### A. Reporting Entity

For financial reporting purposes, the Mill has included all of its operations as enterprise funds, and has considered all potential component units for which the Mill is financially accountable and other organizations for which the nature and significance of their relationship with the Mill are such that exclusion would cause the Mill's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Mill to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Mill.

Based upon these criteria, there are no component units to be included within the Mill as a reporting entity and the Mill is included within the state of North Dakota as a reporting entity.

#### B. Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Mill's activities are considered to be an enterprise fund, single business-type activity (BTA) and accordingly, are reported within a single column in the basic financial statements.

#### C. Basis of Accounting

The enterprise fund is accounted for on a flow of economic resources measurement focus. The accrual basis of accounting is utilized by the enterprise fund. Revenue is recognized at the time of shipment from the Mill or from the transloading site. Expenses are recognized at the time goods and services were received and accepted.

#### D. Cash and Cash Equivalents

This classification appears on the Comparative Statement of Net Position and the Comparative Statement of Cash Flows and includes petty cash and cash on deposit with the Bank of North Dakota.

#### E. Receivables

Accounts receivable represents amounts due from customers for credit sales. Other receivables consist of grain margin accounts, and promissory notes from employees. The grain margin accounts and derivatives are used to buy and sell spring wheat futures contracts on the Minneapolis Grain Exchange. Any activity would be recognized at cost after the settlement period. The allowance method is used to account for estimated uncollectible accounts receivable.

F. Inventories

Grain committed to production is valued at cost. Grain committed to sale is valued at net commitment price. Excess grain inventories are valued at June 30 Minneapolis grain market values, less freight costs to Minneapolis. Flour, feed, and resale inventories are valued at ingredient cost plus manufacturing costs incurred in their production. Supplies inventories are valued at cost. The first-in, first-out basis is used for all inventories.

G. Capital Assets

Capital assets are stated at cost. When it is determined that a project consisting of machinery, equipment, or buildings will span more than one year, a "construction in progress" project folder is established to facilitate the accumulation until completion. Upon completion, the completed item is transferred to the applicable asset category. Movable equipment with a cost of \$5,000 or more is capitalized and reported in the accompanying financial statements.

Depreciation is computed on a straight-line basis over the estimated useful life of the assets, generally 10 to 20 years for infrastructure, 30 to 40 years for buildings, 5 to 25 years for plant equipment, 7 to 10 years for office equipment and furniture, 3 to 8 years for intangibles, and 5 to 10 years for leasehold improvements.

H. Noncurrent Long-Term Liabilities

Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year and a long-term notes payable to BND.

I. Compensated Absences

Annual Leave - Union employees earn vacation within a range of 6 days to 30 days per year depending on length of continuous service. Other employees are entitled to earn annual leave, based on tenure of employment, within a range of 12 days to 30 days per year. Individuals may bank earned vacation time to a total accumulation of 30 days payable at retirement or upon severance of employment.

Sick Leave - Union employees earn sick pay at the rate of one day for each two months of continuous employment. Upon termination, union employees shall be paid an amount equal to \$50 times the total unused days of accumulated leave, not to exceed \$5,000. Other employees earn sick pay at the rate of one day per month. Upon termination, these employees are entitled to be paid 10% of their accumulated sick leave, if employed 10 years or longer.

J. Scale Accrued Purchases

Grain received/unloaded at the Mill that has not yet been settled by the Mill.

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.



L. Other Post Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Net Position

The Mill's net position is classified as follows:

Invested in Capital Assets – This represents the Mill's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets. However, there are no outstanding debt obligations.

Unrestricted Net Position – Unrestricted net position include resources derived from customer sales which may be used to meet the Mill's ongoing obligations.

N. Restatement of Beginning Net Position

A restatement of beginning net position was made in fiscal year 2018:

Net Position, beginning of year, as previously reported	\$	92,854,025
<u>Prior Period Adjustments:</u>		
Change in accounting method for GASB 75		(459,019)
Net Position, beginning of the year, as restated	\$	<u>92,395,006</u>

O. Revenue and Expense Recognition

The Mill presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the Mill. Operating revenues include all charges to customers. Revenues from interest income, gains on sale of capital assets, and bad debt recovery are considered nonoperating since these are either investing, capital, or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital, or noncapital financing activities and do not include interest expense and disposal of non-depreciated capital assets.

P. New Accounting Pronouncements

During fiscal year 2018, the Mill adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*; GASB Statement No. 81, *Irrevocable Split-Interest Agreements*; GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishment Issues*.

During fiscal year 2019, the Mill adopted GASB Statement No. 83, *Certain Asset Retirement Obligations* and GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*.

The Mill will implement the following new pronouncements for fiscal years ending after 2019: GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 87, *Leases*, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction*

Period, GASB Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*, and GASB Statement No. 91, *Conduit Debt Obligations*. The effect that these GASB Statements will have on future financial statements has not yet been determined.

## NOTE 2 – BUDGETING AND BUDGETARY CONTROL

The Mill provides its own operating funds. A two-year budget appropriation is approved by the State Legislature. The Mill's budgeting is on the accrual basis. The Mill does not use encumbrance accounting.

## NOTE 3 – DEPOSITS

North Dakota Century Code (NDCC) sections 6-09-07 and 21-04-02 govern the deposit and investment of public funds.

NDCC section 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." NDCC section 21-04-02 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota.

At June 30, 2019 and 2018, the carrying amount of the Mill's deposits were \$1,754,988 and \$638,868, respectively, and the bank balances were \$7,896,140 and \$5,923,961, respectively. All deposits are exposed to custodial credit risk because they are not covered by depository insurance and the deposits are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the state of North Dakota (NDCC section 6-09-10).

## NOTE 4 – RECEIVABLES

Receivables at June 30, 2019 and 2018 consist of the following:

June 30, 2019	Gross Receivables	Allowance		Net Receivables
		Bad Debts	Billbacks/ Promotional	
Current Receivables				
Accounts	\$ 40,744,454	\$ (1,629,778)	\$ (203,722)	\$ 38,910,954
Margin accounts	429,963			429,963
Other	10,000			10,000
Total Current Receivables	<u>\$ 41,184,417</u>	<u>\$ (1,629,778)</u>	<u>\$ (203,722)</u>	<u>\$ 39,350,917</u>
June 30, 2018	Gross Receivables	Allowance		Net Receivables
Current Receivables				
Accounts	\$ 49,341,117	\$ (2,084,938)	\$ (438,015)	\$ 46,818,164
Margin accounts	2,373,204			2,373,204
Other	30,000			30,000
Total Current Receivables	<u>\$ 51,744,321</u>	<u>\$ (2,084,938)</u>	<u>\$ (438,015)</u>	<u>\$ 49,221,368</u>

At June 30, 2019 and 2018, the ages of gross accounts receivable were as follows:

	<u>2019</u>	<u>2018</u>
Current	\$ 24,148,759	\$ 30,532,507
1-30 Days	11,606,126	14,701,259
31-60 Days	3,575,066	3,020,421
61-90 Days	901,217	741,869
Over 90 Days	513,286	345,061
	<u>\$ 40,744,454</u>	<u>\$ 49,341,117</u>

#### NOTE 5 – INVENTORIES

At June 30, 2019 and 2018, inventories consisted of the following:

	<u>2019</u>	<u>2018</u>
Grain	\$ 18,274,965	\$ 18,698,417
Flour, Feed, Resale	6,317,999	6,425,715
Supplies	802,033	794,730
Total Inventories	<u>\$ 25,394,997</u>	<u>\$ 25,918,862</u>

The Mill's net position in the grain market at June 30, 2019 and 2018 were as follows:

	<u>2019 Bushels</u>		<u>2018 Bushels</u>	
	<u>Wheat</u>	<u>Durum</u>	<u>Wheat</u>	<u>Durum</u>
Company Owned (Priced) Grain and Flour on Hand	1,642,829	235,475	3,182,530	346,597
Open Purchase Contracts				
Cash	4,645,817	601,675	3,112,938	622,356
Futures	<u>2,485,000</u>	<u>          </u>	<u>3,780,000</u>	<u>          </u>
Subtotal	8,773,646	837,150	10,075,468	968,953
Committed to Production	<u>(8,790,410)</u>	<u>(529,160)</u>	<u>(9,719,468)</u>	<u>(728,047)</u>
Net Position (Short) Long	<u>(16,764)</u>	<u>307,990</u>	<u>356,000</u>	<u>240,906</u>

Any gains or losses on net open position would only occur if there were changes in the market price of wheat or durum prior to the Mill covering their open position. Losses on open purchase contracts could occur if there was a failure to deliver the commodity. The amount of loss would depend upon the difference between the contract price and the market price at that time.

#### NOTE 6 – CAPITAL ASSETS

A summary of changes in capital assets for fiscal year ended June 30, 2019 and 2018 is presented on the following page:

	Balance				Balance
	July 1, 2018	Additions	Deletions	Transfers	June 30, 2019
<b>Capital Assets, Non-Depreciable:</b>					
Land	\$ 451,522				\$ 451,522
Construction in Progress	4,031,282	\$ 22,619,060		\$ (2,978,899)	\$ 23,671,443
Total Capital Assets, Non-Depreciable	\$ 4,482,804	\$ 22,619,060		\$ (2,978,899)	\$ 24,122,965
<b>Capital Assets, Depreciable:</b>					
Infrastructure	\$ 3,879,755			\$ 203,613	\$ 4,083,368
Buildings	57,581,284		\$ (357,279)	203,269	57,427,274
Machinery & Equipment	90,688,745		(444,677)	2,216,308	92,460,376
Intangibles	1,574,854		(50,579)	272,921	1,797,196
Furniture & Fixtures	885,902		(37,867)	82,788	930,823
Total Capital Assets, Depreciable	\$ 154,610,540		\$ (890,402)	\$ 2,978,899	\$ 156,699,037
<b>Less Accumulated Depreciation:</b>					
Infrastructure	\$ 2,197,638	\$ 103,671			\$ 2,301,309
Buildings	15,182,861	1,510,281	\$ (357,279)		16,335,863
Machinery & Equipment	47,566,557	3,806,895	(408,910)		50,964,542
Intangibles	744,031	137,604	(50,579)		831,056
Furniture & Fixtures	497,334	85,228	(37,867)		544,695
Total Accumulated Depreciation	\$ 66,188,421	\$ 5,643,679	\$ (854,635)		\$ 70,977,465
Total Capital Assets, Depreciable, Net	\$ 88,422,119	\$ (5,643,679)	\$ (35,767)	\$ 2,978,899	\$ 85,721,572
Capital Assets, Net	\$ 92,904,923	\$ 16,975,381	\$ (35,767)		\$ 109,844,536

	Balance				Balance
	July 1, 2017	Additions	Deletions	Transfers	June 30, 2018
<b>Capital Assets, Non-Depreciable:</b>					
Land	\$ 387,126	\$ 64,396			\$ 451,522
Construction in Progress	10,737,393	8,091,026		\$ (14,797,137)	4,031,282
Total Capital Assets, Non-Depreciable	\$ 11,124,519	\$ 8,155,422		\$ (14,797,137)	\$ 4,482,804
<b>Capital Assets, Depreciable:</b>					
Infrastructure	\$ 3,471,301			\$ 408,454	\$ 3,879,755
Buildings	47,619,665		\$ (41,100)	10,002,719	57,581,284
Machinery & Equipment	88,085,271		(925,850)	3,529,324	90,688,745
Intangibles	965,534			609,320	1,574,854
Furniture & Fixtures	773,240		(134,658)	247,320	885,902
Total Capital Assets, Depreciable	\$ 140,915,011		\$ (1,101,608)	\$ 14,797,137	\$ 154,610,540
<b>Less Accumulated Depreciation:</b>					
Infrastructure	\$ 2,117,033	\$ 80,605			\$ 2,197,638
Buildings	13,802,601	1,421,361	\$ (41,101)		15,182,861
Machinery & Equipment	44,796,049	3,642,747	(872,239)		47,566,557
Intangibles	652,043	91,988			744,031
Furniture & Fixtures	577,467	54,525	(134,658)		497,334
Total Accumulated Depreciation	\$ 61,945,193	\$ 5,291,226	\$ (1,047,998)		\$ 66,188,421
Total Capital Assets, Depreciable, Net	\$ 78,969,818	\$ (5,291,226)	\$ (53,610)	\$ 14,797,137	\$ 88,422,118
Capital Assets, Net	\$ 90,094,337	\$ 2,864,196	\$ (53,610)		\$ 92,904,923

## NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Accounts Payable	\$ 4,929,584	\$ 8,154,589
Scale Accrued Purchases	9,997,650	9,744,877
Accrued Gain Sharing	2,002,830	2,627,467
Accrued Payroll	472,314	471,974
Accrued Payroll Taxes and Benefits	24,139	26,154
Accrued Commissions	41,131	44,855
Compensated Absences, Current Portion	100,465	102,914
Total accounts payable and accrued liabilities	<u>\$ 17,568,113</u>	<u>\$ 21,172,830</u>

## NOTE 8 – SHORT-TERM NOTES PAYABLE

The Mill uses a revolving line of credit to finance current operations with the Bank of North Dakota. The line of credit is for \$60,000,000 and as of June 30, 2019, \$35,000,000 is unused. All Mill assets including but not limited to equipment, accounts, and inventory are pledged as collateral for the line of credit along with the notes payable discussed in Note 9. The interest rate is variable at 1.0% over the 3-month LIBOR, adjusted quarterly. As of June 30, 2019, the rate was 3.5955%. Short-term debt activity for the years ended June 30, 2019 and 2018 were as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2018</u>	<u>Draws</u>	<u>Repayments</u>	<u>June 30, 2019</u>
Line of credit	<u>\$ 34,000,000</u>	<u>\$ 23,000,000</u>	<u>\$ (32,000,000)</u>	<u>\$ 25,000,000</u>

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2017</u>	<u>Draws</u>	<u>Repayments</u>	<u>June 30, 2018</u>
Line of credit	<u>\$ 29,000,000</u>	<u>\$ 16,500,000</u>	<u>\$ (11,500,000)</u>	<u>\$ 34,000,000</u>

## NOTE 9 – LONG-TERM LIABILITIES

The Mill borrowed \$20,000,000 during fiscal year 2019 from the Bank of North Dakota to finance current operations and it is recorded as a notes payable. The interest rate is fixed at 3.97% and the term is five years. All Mill assets including but not limited to equipment, accounts, and inventory are pledged as collateral for the notes payable along with the line of credit discussed in Note 8.

Compensated absences are also shown as long-term liabilities for annual and sick leave payable to employees upon retirement or severance of employment. See details in Note 1.

A summary of changes in the long-term liabilities for June 30, 2019 and 2018 is presented as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>	<u>Noncurrent</u>
	<u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2019</u>	<u>Portion</u>	<u>Portion</u>
Compensated Absences	\$ 1,220,810	\$ 925,724	\$ (954,777)	\$ 1,191,757	\$ 100,465	\$ 1,091,292
Notes Payable		20,000,000	(655,860)	19,344,140	1,691,083	17,653,057
Total Long-Term Liabilities	<u>\$ 1,220,810</u>	<u>\$ 20,925,724</u>	<u>\$ (1,610,637)</u>	<u>\$ 20,535,897</u>	<u>\$ 1,791,548</u>	<u>\$ 18,744,349</u>

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Current Portion	Noncurrent Portion
Compensated Absences	\$ 1,074,453	\$ 950,633	\$ (804,276)	\$ 1,220,810	\$ 102,914	\$ 1,117,896
Total Long-Term Liabilities	\$ 1,074,453	\$ 950,633	\$ (804,276)	\$ 1,220,810	\$ 102,914	\$ 1,117,896

The schedule of maturities of notes payable is as follows:

Fiscal Year	Principal	Interest	Total
6/30/2020	\$ 1,691,083	\$ 739,589	\$ 2,430,672
6/30/2021	1,761,478	669,194	2,430,672
6/30/2022	1,832,695	597,977	2,430,672
6/30/2023	1,906,792	523,880	2,430,672
6/30/2024	12,152,092	272,752	12,424,844
	<u>\$ 19,344,140</u>	<u>\$ 2,803,392</u>	<u>\$ 22,147,532</u>

#### NOTE 10 – BONUS AND OTHER EMPLOYEE AGREEMENTS

The CEO's annual bonus opportunity is based on performance, up to 30% of base salary. The employee's annual bonus opportunity is based on achieving production, safety, and profit goals. Production and safety goals have a 5% bonus potential and if profit before gain sharing expense accrual exceeds \$5 million, the profit bonus would be 1% of base salary for each million in profits (before gain sharing expense accrual), or fraction thereof. The bonus potential was accrued. (See Note 7)

#### NOTE 11 – LEASE OBLIGATIONS

During the fiscal year ended June 30, 2019 and 2018, the Mill had operating leases for bulk rail and box cars with original terms of 2 to 21 years on 857 and 810 cars, respectively. Contract rental charges per car varied from \$475 to \$897 per month. The Mill also has an operating lease with Pitney Bowes for a postage machine, GM Financial and Chrysler Capital for the CEO's automobile, BNSF for land and track rental and Wells Fargo for a shuttlewagon. The annual contract expenses for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Bulk rail cars	\$ 7,359,555	\$ 7,298,707
Postage machine	1,722	1,722
Automobile	8,388	8,388
Land and Track	37,132	37,132
Shuttlewagon	75,037	75,037
Total operating lease payments	<u>\$ 7,481,834</u>	<u>\$ 7,420,986</u>

The minimum future lease payments for each of the next five years and in the aggregate is as follows:

6/30/2020	7,048,558
6/30/2021	5,872,825
6/30/2022	3,688,287
6/30/2023	2,035,685
6/30/2024	974,950
	<u>\$ 19,620,305</u>

## NOTE 12- PENSION PLAN

The Mill participates in the North Dakota Public Employees' Retirement System (NDPERS), administered by the state of North Dakota. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC chapter 54-52 for more complete information.

### A. Description of Pension Plans

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

### B. Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

### C. Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's 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 member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit

of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

**D. Refunds of Member Account Balance**

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

**E. Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

**F. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2019 and 2018, the Mill reported a liability of \$14,040,992 and \$12,054,415, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Mill's proportion of the net pension liability was based on the Mill's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018, the Mill's proportion was 0.832005 percent, which was an increase of 0.082039 from its proportion measured as of June 30, 2017. At June 30, 2017, the Mill's proportion was 0.749966 percent, which was a decrease of 0.086333 from its proportion measured as of June 30, 2016.

For the years ended June 30, 2019 and 2018, the Mill recognized a pension expense of \$2,384,332 and \$1,736,053. At June 30, 2019 and 2018, the Mill reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:



	<b>2019</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 37,166	\$ 477,702
Changes of assumptions	5,068,506	200,408
Net difference between projected and actual earnings on pension plan investments		68,311
Changes in proportion and differences between employer contributions and proportionate share of contributions	822,285	496,228
Employer contributions subsequent to the measurement date	796,459	
<b>Total</b>	<b>\$ 6,724,416</b>	<b>\$ 1,242,649</b>

\$796,459 reported as deferred outflows of resources related to pensions resulting from the Mill contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

	<b>2018</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 71,651	\$ 58,731
Changes of assumptions	4,943,123	271,883
Net difference between projected and actual earnings on pension plan investments	162,122	
Changes in proportion and differences between employer contributions and proportionate share of contributions	173,763	645,164
Employer contributions subsequent to the measurement date	708,182	
<b>Total</b>	<b>\$ 6,058,841</b>	<b>\$ 975,778</b>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2020	\$ 1,513,131
2021	1,324,945
2022	1,058,127
2023	686,972
2024	102,133
Thereafter	

**Actuarial assumptions.** The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%		
Salary increases	Service at Beginning of Year:	State Employee	Increase Rate:
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
Age*	Under 30	7.25%	10.00%
	30 - 39	6.50%	7.50%
	40 - 49	6.25%	6.75%
	50 - 59	5.75%	6.50%
	60+	5.00%	5.25%

\*Age-based salary increase rates apply for employees with three or more years of service

Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

**Discount rate.** For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

**Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.** The following presents the Mill's proportionate share of the net pension liability as of June 30, 2018 calculated using the discount rate of 6.32 percent, as well as what the Mill's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease (5.32%)	Current Discount Rate (6.32%)	1% Increase (7.32%)
Employer's proportionate share of the net pension liability	\$19,079,098	\$14,040,992	\$9,836,855

The following presents the Mill's proportionate share of the net pension liability as of June 30, 2017 calculated using the discount rate of 6.44 percent, as well as what the Mill's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.44%)	Current Discount Rate (6.44%)	1% Increase (7.44%)
Employer's proportionate share of the net pension liability	\$16,364,237	\$12,054,415	\$8,468,823

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

**NOTE 13 – POST RETIREMENT BENEFITS**

The Mill participates in the North Dakota Public Employees' Retirement System (NDPERS) other post employment benefits (OPEB) administered by the state of North Dakota. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

**A. Description of OPEB Plans**

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

**B. OPEB Benefits**

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit

or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit (RHIC) is also available for early retirement with reduced benefits.

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, the Mill reported a liability of \$615,199 and \$559,783, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Mill's proportion of the net OPEB liability was based on the Mill's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Mill's proportion was 0.781137 percent which was an increase of 0.073456 percent from its proportion measures as of June 30, 2017. As June 30, 2017, the Mill's proportion was 0.707681 percent.

For the years ended June 30, 2019 and 2018, the Mill recognized OPEB expense of \$87,395 and \$69,355, respectively. At June 30, 2019 and 2018, the Mill reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>2019</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 18,418	\$ 12,711
Changes of assumptions	50,478	13,235
Net difference between projected and actual earnings on OPEB plan investments		
Changes in proportion and differences between employer contributions and proportionate share of contributions	69,866	
Employer contributions subsequent to the measurement date	127,521	
Total	<u>\$ 266,283</u>	<u>\$ 25,946</u>

\$127,521 reported as deferred outflows of resources related to OPEB resulting from the Mill's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

	2018	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		\$ 13,653
Changes of assumptions	\$ 54,218	
Net difference between projected and actual earnings on OPEB plan investments		21,165
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,006	
Employer contributions subsequent to the measurement date	113,390	
Total	<u>\$ 179,614</u>	<u>\$ 34,818</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

**Year ended June 30:**

2020	\$ 16,530
2021	16,530
2022	16,530
2023	22,371
2024	21,299
2025	15,863
Thereafter	3,693

**Actuarial assumptions.** The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	7.15%
Small Cap Domestic Equities	9%	14.42%
International Equities	14%	8.83%
Core-Plus Fixed Income	40%	0.10%

**Discount rate.** The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate.** The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net OPEB liability	\$778,373	\$615,199	\$475,315

The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net OPEB liability	\$700,781	\$559,783	\$438,924

**OPEB plan fiduciary net position.** Detailed information about the OPEB plan's fiduciary net position is available in the separately issued NDPERS financial report.

#### NOTE 14 - DEFERRED COMPENSATION PLAN

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits them to defer a portion of their current salary until future years. Participation in the plan is optional. The deferred compensation is not available to the employees until separation of employment, unforeseeable emergency, de minimis distribution, or qualified domestic relations orders.

All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive use of the employee or their beneficiary.

The Mill employee deposits to deferred compensation for June 30, 2019 and 2018 was \$317,958 and \$288,296, respectively.

#### NOTE 15 – CONCENTRATIONS

The Mill sells a substantial portion of its product to five major customers. Sales to these customers totaled approximately 7,928,894 and 8,581,429 hundredweight for the years ended June 30, 2019 and 2018, respectively. For June 30, 2019 and 2018, sales to these customers were 54% and 56%, respectively.

Approximately 65% of employees are employed under a five-year bargaining agreement that will expire at June 30, 2019. This contract contains a provision that states there shall be no strikes, slowdowns, or stoppages of work, picketing, boycotts, or other interference with the full operations of the business of the Company by the employees covered by this agreement and there shall be no lockout by the Employer.

#### NOTE 16 - RELATED PARTY TRANSACTIONS

For fiscal years 2019 and 2018, section 54-18-19 of the NDCC provides that the Industrial Commission shall transfer to the state general fund, 75% of the annual earnings and undivided profits of the Mill after any transfers to other state agricultural-related programs. The moneys must be transferred on an annual basis in the amounts and at the times requested by the director of the Office of Management and Budget. For the year ended June 30, 2019 and 2018, the Mill had a due to state general fund of \$7,568,325 and \$10,109,147, respectively.

Section 54-18-21 of the NDCC provides that the Industrial Commission shall transfer 5% of the net income earned by the Mill during that fiscal year to the Agricultural Products Utilization Fund. For the years ended June 30, 2019 and 2018, the Mill had a due to Ag Products Utilization Fund of \$531,111 and \$709,413, respectively.



As referred to in Note 3, the Mill does all banking with the Bank of North Dakota. They also have a revolving line of credit with the Bank of North Dakota and a notes payable, which are discussed in Notes 8 and 9.

The Mill paid the Industrial Commission, a state of North Dakota agency, \$41,392 and \$41,393 in fiscal years 2019 and 2018, respectively.

#### NOTE 17 – DERIVATIVE INSTRUMENT

Fair value measurements are used to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

##### ***Fair Value Hierarchy***

In accordance with GASB Statement No. 72, assets and liabilities are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of assumptions used to determine fair value. These levels are:

- Level 1 - Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

##### ***Determination of Fair Value***

In accordance with GASB Statement No. 72, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Mill's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurement in accordance with the fair value hierarchy.

The following is a description of valuation methodologies used for liabilities recorded at fair value.

##### ***Derivative Instruments***

Fair values of the grain future contracts are determined on the Minneapolis Grain Exchange.

##### ***Assets and Liabilities Recorded at Fair Value on a Recurring Basis***

The tables below present the balance of assets and liabilities measured at fair value on a recurring basis at June 30, 2019 and 2018:

		2019			
		Quoted	Significant	Significant	
		Prices in	Other	Unobservable	
		Active	Observable	Inputs	
		Markets	Inputs	Level 3	
		Level 1	Level 2	Level 3	
		Total			
<b>Assets</b>					
Derivative Instrument	\$	15,750	\$	15,750	
Total	\$	15,750	\$	15,750	
<b>2018</b>					
		Quoted	Significant	Significant	
		Prices in	Other	Unobservable	
		Active	Observable	Inputs	
		Markets	Inputs	Level 3	
		Level 1	Level 2	Level 3	
		Total			
<b>Liabilities</b>					
Derivative Instrument	\$	1,544,112	\$	1,544,112	
Total	\$	1,544,112	\$	1,544,112	

The fair values balances and notional amount of derivative instruments outstanding at June 30, 2019 and the changes in fair values of such derivative instruments for the year then ended as reported in the 2019 financial statements are \$15,750, classified as Derivative Instrument (one contract equals 5000 bushels) and \$15,750, classified as Deferred Inflows of Resources – Accumulated increase in fair value of hedging derivatives.

The fair values balances and notional amount of derivative instruments outstanding at June 30, 2018 and the changes in fair values of such derivative instruments for the year then ended as reported in the 2018 financial statements are \$1,544,112, classified as Derivative Instrument (one contract equals 5000 bushels) and \$1,544,112, classified as Deferred Outflows of Resources – Accumulated decrease in fair value of hedging derivatives.

The fair value of the grain futures contracts was determined on the Minneapolis Grain Exchange. The margin requirement is \$.60 per bushel, unless the market price changes the limit for two consecutive days, then the margin requirement is \$.90 per bushel.

The Mill has entered into futures contracts for spring wheat to lock in a price for a future delivery or settlement period. These contracts are entered into to protect the Mill against price fluctuations of the commodity. The price protection is needed to cover any long or short positions compared to flour sales. The tables below show the cost and market values of these spring wheat futures at June 30, 2019 and 2018:

Fiscal Year 2019

Month	# Contracts Long/(Short)	Average Cost	Quoted Prices in Active Mkts	Average Cost	Market Value
Sep-19	-5	5.5288	5.5425	\$ (142,062)	\$ (138,562)
Dec-19	286	5.7122	5.6750	8,186,301	8,115,250
Mar-20	133	5.7949	5.8100	3,850,638	3,863,650
May-20	73	5.6847	5.8875	2,076,900	2,148,938
Jul-20	10	6.0000	5.9650	300,000	298,250
				<u>\$ 14,271,777</u>	<u>\$ 14,287,526</u>

Fiscal Year 2018

Month	# Contracts Long/(Short)	Average Cost	Quoted Prices in Active Mkts	Average Cost	Market Value
Sep-18	9	5.4890	5.3675	\$ 251,600	\$ 241,538
Dec-18	436	6.0084	5.5450	13,093,900	12,088,100
Mar-19	177	6.0656	5.7050	5,375,863	5,048,925
May-19	104	6.1606	5.8050	3,197,013	3,018,600
July-19	30	6.0726	5.9000	907,901	885,000
				<u>\$ 22,826,277</u>	<u>\$ 21,282,163</u>

The Mill is exposed to credit risk on hedging derivative instruments that are in asset positions. All grain futures trades are completed using two different national brokerage firms on the Minneapolis Grain Exchange. ADM Investor Services is rated A by the Standard & Poor's Rating Service. RJ O'Brien is a privately held business and is not rated by the Standard & Poor's Rating Service.

The Mill is exposed to rollover risk on grain futures trades whenever the hedge ratio (defined in aggregate of the size across all futures months relative to the underlying net cash position) does not equal 1.0. On June 30, 2019 and 2018, the tables below show the hedge ratio by futures month going forward:

June 30, 2019		June 30, 2018	
Period	Hedge Ratio	Period	Hedge Ratio
September 2019	1.0	September 2018	1.0
December 2019	1.0	December 2018	0.9
March 2020	1.0	March 2019	0.9
May 2020	1.1	May 2019	0.8
July 2020	1.0	July 2019	1.0
Net Position	1.0	Net Position	0.9

**NOTE 18 - RISK MANAGEMENT**

The North Dakota Mill and Elevator Association is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the North Dakota Mill and Elevator Association carries liability insurance and property insurance through the state's Risk Management Fund (RMF) and commercial insurance, respectively.

The 1995 Legislative Session established the RMF, an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the

elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies, and employees. All state agencies participate in the RMF and each fund's contribution was determined using a projected cost allocation approach.

The Mill participated in North Dakota Workforce Safety and Insurance (WSI), an enterprise fund of the state of North Dakota. The WSI 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.

The Mill participates in the State Bonding Fund which currently provides blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior years and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

#### NOTE 19 – COMMITMENTS AND CONTINGENCIES

At June 30, 2019 and 2018, the Mill had committed to purchase 4,645,817 and 3,112,938 bushels of spring wheat, respectively and 601,675 and 622,356 bushels of durum, respectively.

In addition, at June 30, 2019 and 2018, construction commitments totaled \$5,103,557 and \$24,868,719, respectively, amounts authorized totaled \$28,775,000 and \$28,900,000, respectively and amounts expended/construction in progress totaled \$23,671,443 and \$4,031,281, respectively.

## *Required Supplementary Information*

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### **Schedule of Employer's Share of Net Pension Liability**

#### **ND Public Employees Retirement System Last 10 Fiscal Years\***

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.832005%	0.749966%	0.836299%	0.867931%	0.817003%
Employer's proportionate share of the net pension liability (asset)	\$14,040,992	\$12,054,415	\$8,150,549	\$5,901,783	\$5,185,693
Employer's covered-employee payroll	\$8,547,332	\$7,655,981	\$8,427,920	\$7,732,208	\$6,882,262
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	164.27%	157.45%	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	62.80%	61.98%	70.45%	77.15%	77.70%

\*Complete data for this schedule is not available prior to 2015. The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

### **Schedule of Employer Contributions**

#### **ND Public Employees Retirement System Last 10 Fiscal Years\***

	2019	2018	2017	2016	2015
Statutorily required contribution	\$796,459	\$708,182	\$642,553	\$630,801	\$573,685
Contributions in relation to the statutorily required contribution	(\$796,459)	(\$708,182)	(\$642,553)	(\$630,801)	(\$573,685)
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0
Employer's covered-employee payroll	\$9,007,040	\$8,547,332	\$7,655,981	\$8,427,920	\$7,732,208
Contributions as a percentage of covered-employee payroll	8.84%	8.29%	8.39%	7.48%	7.42%

\*Complete data for this schedule is not available prior to 2015.

## Schedule of Employer's Share of Net OPEB Liability

### ND Public Employees Retirement System Last 10 Fiscal Years\*

	2019	2018
Employer's proportion of the net OPEB liability (asset)	0.781137%	0.707681%
Employer's proportionate share of the net OPEB liability (asset)	\$615,199	\$559,783
Employer's covered-employee payroll	\$8,547,332	\$7,655,981
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.20%	7.31%
Plan fiduciary net position as a percentage of the total OPEB liability	61.89%	59.78%

\*Complete data for this schedule is not available prior to 2018. The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

## Schedule of Employer Contributions

### ND Public Employees Retirement System Last 10 Fiscal Years\*

	2019	2018
Statutorily required contribution	\$127,521	\$113,390
Contributions in relation to the statutorily required contribution	(\$127,521)	(\$113,390)
Contribution deficiency (excess)	\$0	\$0
Employer's covered-employee payroll	\$9,007,040	\$8,547,332
Contributions as a percentage of covered-employee payroll	1.42%	1.33%

\*Complete data for this schedule is not available prior to 2018.

## Notes to Required Supplementary Information

### For the Year Ended June 30, 2019

#### **Changes of assumptions.**

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rate, administrative expenses, salary scale, and percent married assumption.

## *Supplementary Information*

### **Schedule of Appropriations**

<b>OBJECT</b>	<b>2017-19 Final Appropriation</b>	<b>2018 Expenses/ Transfers</b>	<b>2019 Expenses/ Transfers</b>	<b>Balance 6-30-19</b>
Salaries and wages	\$ 39,308,519	\$ 17,826,410	\$ 17,569,811	\$ 3,912,298
Operating expenses	28,195,000	11,903,744	11,841,200	4,450,056
Agriculture promotion	210,000	26,405	23,880	159,715
Contingency	500,000			500,000
<b>TOTAL</b>	<b><u>\$ 68,213,519</u></b>	<b><u>\$ 29,756,559</u></b>	<b><u>\$ 29,434,891</u></b>	<b><u>\$ 9,022,069</u></b>
<b>SOURCE</b>				
Special fund authority	\$ 68,213,519	\$ 29,756,559	\$ 29,434,891	\$ 9,022,069
<b>TOTAL</b>	<b><u>\$ 68,213,519</u></b>	<b><u>\$ 29,756,559</u></b>	<b><u>\$ 29,434,891</u></b>	<b><u>\$ 9,022,069</u></b>

2017-2019 Appropriation amounts come directly from the North Dakota Session Laws, Chapter 39, Senate Bill 1014.

The following is a reconciliation of the GAAP expenses from the Statement of Revenue, Expenses and Changes in Net Position to the Schedule of Appropriations:

	<u>2018</u>	<u>2019</u>
Total operating expenses	\$ 255,406,215	\$ 233,287,757
Adjustments:		
Material cost	(219,698,839)	(197,054,154)
Depreciation	(5,291,226)	(5,644,673)
Change in compensated absences	(146,356)	29,053
Change in pension expense	(1,027,872)	(1,587,873)
Change in OPEB expense	44,032	40,126
Demurrage	444,200	340,775
Agriculture promotion	26,405	23,880
Expenses per schedule of appropriations	<b><u>\$ 29,756,559</u></b>	<b><u>\$ 29,434,891</u></b>



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
FARGO BRANCH OFFICE  
1655 43<sup>rd</sup> STREET SOUTH, SUITE 203  
FARGO, NORTH DAKOTA 58103

## *Exhibits*

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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**

## Independent Auditor's Report

Members of the Legislative Assembly

Industrial Commission

Vance Taylor, President and CEO  
North Dakota Mill and Elevator Association

We have audited, in accordance with the 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 business-type activities of the North Dakota Mill and Elevator Association, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the North Dakota Mill and Elevator Association's basic financial statements, and have issued our report dated October 17, 2019.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the North Dakota Mill and Elevator Association'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 North Dakota Mill and Elevator Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Mill and Elevator Association'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the North Dakota Mill and Elevator Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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 Mill and Elevator Association'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.

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota

October 17, 2019

## 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?*

Unmodified.

*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?*

There were no recommendations included in the prior audit report.

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

No.

## LAFRC Audit Communications

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

None 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.*

Management's estimate of the useful lives, as described in Note 1, is used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. Management's estimate of the net pension liability and net OPEB liability is based on an actuary's calculation in accordance with the employment contracts. We evaluated the key factors and assumptions used to develop the useful lives, allowances, net pension liability and net OPEB liability in determining that they are reasonable in relation to the financial statements taken as a whole.

3. *Identify any significant audit adjustments.*

There was one audit adjustment for \$1,691,083 to properly classify the current portion of the notes payable.

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.*

Microsoft Dynamics GP, Altec doc-link, ASC and CINCH Agri-Suite are the most high-risk information technology systems critical to the North Dakota Mill and Elevator Association.



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**OFFICE OF THE STATE AUDITOR**  
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## Governance Communication

October 17, 2019

Legislative Audit and Fiscal Review Committee

Industrial Commission

We have audited the financial statements of the business-type activities of the North Dakota Mill and Elevator Association for the years ended June 30, 2019 and 2018, and have issued our report thereon dated October 17, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 24, 2019. Professional standards also require that we communicate to you 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 Mill and Elevator Association 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 the year. 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. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Useful lives of capital assets
- Allowance for uncollectible receivables
- Net pension and OPEB liabilities

Management's estimate of the useful lives, as described in Note 1, is used to compute depreciation on capital assets. Management's estimate of the allowance or uncollectible receivable is based on aging categories, past history, and an analysis of the collectability of individual accounts. Management's estimate of the net pension liability and net OPEB liability is based on an actuary's calculation in accordance with the employment contracts. We evaluated the key factors and assumptions used to develop the useful lives, allowances and net pension liability and net OPEB liability in determining that they are reasonable in relation to the financial statements taken as a whole.

#### **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 was one corrected misstatement for \$1,691,083 to properly classify the current portion of the notes payable.

#### **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 17, 2019.

#### **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.

#### **Other Matters**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

A handwritten signature in cursive script that reads "Robyn Hoffmann".

Robyn Hoffmann, CPA  
Audit Manager

You may obtain audit reports on the internet at:

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**Email:** [ndsao@nd.gov](mailto:ndsao@nd.gov)

**Phone:** (701) 328-2241

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