



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## North Dakota Beef Commission

Audit Report for the Fiscal Years Ending June 30, 2020 and June 30, 2019

Client Code 624



## **KEY PERSONNEL**

### **State Auditor's Office Staff**

Dustin Walcker, Audit Manager  
Kevin Scherbenske, CPA, Auditor  
Alandra Kist, CFE, Auditor

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STATE OF NORTH DAKOTA  
OFFICE OF THE STATE AUDITOR  
STATE CAPITOL  
600 E. BOULEVARD AVENUE – DEPT 117  
BISMARCK, NORTH DAKOTA 58505

## ***Independent Auditor's Report***

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Members of the Legislative Assembly

Members of the North Dakota Beef Commission

Ms. Nancy Jo Bateman, Executive Director

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

We have audited the accompanying financial statements of the North Dakota Beef Commission Fund as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise the North Dakota Beef Commission Fund's basic 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 the financial statements that is free from material misstatements, whether due to fraud or error.

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

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 misstatements.

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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above presents fairly, in all material respects, the respective financial position of the North Dakota Beef Commission Fund, as of June 30, 2020 and 2019, and the change in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 1, the financial statements are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the Beef Commission Fund. They do not purport to, and do not, present fairly the financial position of the state of North Dakota as of June 30, 2020 or 2019, and the changes in its financial position 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 require that the Schedule of Employer's Share of Net Pension Liability, Schedule of Employer's Share of Net Other Post-Employment Benefits (OPEB) Liability, and the Schedule of Employer Contributions for both pensions and OPEB 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 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 of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 evidence sufficient to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate

operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### Other Information

Our audit was conducted for the purpose of forming an opinion on the North Dakota Beef Commission Fund's financial statements. The *Funding Source Balance Sheets* and *Funding Source Statement of Revenues, Expenditures, and Changes in Fund Balance* for fiscal years 2020 and 2019 are presented for purposes of additional analysis and are not a required part of the financial statements.

These additional statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Funding Source Financial Statements* are fairly stated, in all material respects, in relation to the 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 13, 2020 on our consideration of the North Dakota Beef Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North Dakota Beef Commission'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 Beef Commission's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion  
State Auditor

Bismarck, North Dakota  
October 13, 2020



## *Financial Statements*

### **Comparative Balance Sheet**

|  | <u>June 30, 2020</u> | <u>June 30, 2019</u> |
|--|----------------------|----------------------|
| <u>Assets</u>                                |                      |                      |
| Cash and Cash Equivalents                    | \$ 1,116,901         | \$ 1,474,451         |
| Investments                                  | 450,000              | 450,000              |
| Assessments Receivable                       | 100,648              | 84,936               |
| Interest Receivable                          | 320                  | 634                  |
| Total Assets                                 | <u>\$ 1,667,869</u>  | <u>\$ 2,010,021</u>  |
| <u>Liabilities and Fund Balance</u>          |                      |                      |
| Liabilities:                                 |                      |                      |
| Accounts Payable                             | \$ 61,077            | \$ 117,826           |
| Accrued Payroll                              | 30,592               | 22,710               |
| Due to Cattlemen's Beef Board                | 58,610               | 49,345               |
| Due to National Cattlemen's Beef Association | 29,222               | 24,594               |
| Due to Other States                          | 1,366                | 1,674                |
| Total Liabilities                            | <u>\$ 180,867</u>    | <u>\$ 216,149</u>    |
| Fund Balance:                                |                      |                      |
| Restricted                                   | <u>\$ 1,487,002</u>  | <u>\$ 1,793,872</u>  |
| Total Fund Balances                          | <u>\$ 1,487,002</u>  | <u>\$ 1,793,872</u>  |
| Total Liabilities and Fund Balances          | <u>\$ 1,667,869</u>  | <u>\$ 2,010,021</u>  |

See Notes to the Financial Statements.

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

For the Fiscal Year Ended June 30

|   | 2020         | 2019         |
|---|--------------|--------------|
| <b><u>Revenues</u></b>                                |              |              |
| Gross Assessment Revenue                              | \$ 2,275,536 | \$ 2,295,591 |
| Less:   |              |              |
| Refunds   | (136,075)    | (135,217)    |
| Assessment Revenue Remitted to Other States           | (17,443)     | (20,357)     |
| Assessment Revenue Remitted to Cattlemen's Beef Board | (563,238)    | (568,207)    |
| Net Assessment Revenues                               | \$ 1,558,780 | \$ 1,571,810 |
| Interest Income                                       | 10,949       | 9,747        |
| Beef Gift Certificates                                |              | 225          |
| Other Revenue   | 8,205        | 14,715       |
| Total Revenues  | \$ 1,577,934 | \$ 1,596,497 |
| <b><u>Expenditures</u></b>                            |              |              |
| Program Expenditures:                                 |              |              |
| International Promotion                               | \$ 245,930   | \$ 35,230    |
| Promotion   | 283,376      | 135,142      |
| Domestic/International Special Project                |              | 75,000       |
| Industry Information                                  | 84,572       | 25,234       |
| Research  | 423,287      | 375,950      |
| Consumer Information                                  | 165,641      | 258,782      |
| National Program Development                          | 281,663      | 284,341      |
| Total Program Expenditures                            | \$ 1,484,469 | \$ 1,189,679 |
| Beef Gift Certificates                                |              | 225          |
| Administration  | 400,335      | 375,316      |
| Total Expenditures                                    | \$ 1,884,804 | \$ 1,565,220 |
| Revenues Over Expenditures                            | \$ (306,870) | \$ 31,277    |
| Fund Balance, Beginning of Year                       | 1,793,872    | 1,762,595    |
| Fund Balance, End of Year                             | \$ 1,487,002 | \$ 1,793,872 |

See Notes to the Financial Statements.



# Notes to the Financial Statements

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the North Dakota Beef Commission (hereafter Commission) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

### A. Reporting Entity

For financial reporting purposes, the Commission includes all funds, programs, and activities over which it is financially accountable. The Commission does not have any component units as defined by the Government Accounting Standards Board. The Commission is part of the state of North Dakota as a reporting entity. The financial statements report the financial position as well as all revenue and expenditure activity in the operations program.

The Commission was established by North Dakota Century Code (NDCC) chapter 4.1-03, and is vested with the powers to collect and expend an assessment of two dollars for each head of cattle sold within the state or from the state. The Commission's responsibilities are to provide and participate in programs to increase the consumption of domestic beef through such means as advertising, research, consumer information, industry information, sales promotion, and education, but at no time may false or unwarranted claims be made on behalf of the beef industry. Additional responsibilities are to support beef promotion, research, and education activities of the national beef promotion and marketing organizations.

### B. Reporting Structure

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

### C. Fund Financial Statements

Separate fund financial statements are provided for the Commission's governmental fund.

### D. Fund Accounting Structure

The Commission uses a fund to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The Commission reports their operating fund as a major governmental fund. It is used to account for the collection of assessments and transactions to provide and participate in programs to increase the use and consumption of beef through such means as advertising, research, consumer information, industry information, sales promotion, and education of the beef industry.

E. Basis for Accounting

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; generally, when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days of year end. Major revenues that are determined to be susceptible to accrual are assessments and interest.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

F. Cash and Cash Equivalents

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

G. Investments

Investments include certificates of deposit that are reported at fair value.

H. Receivables

Receivables include assessments receivable on cattle sales and interest receivable on investments.

I. Accounts Payable

Accounts payable consists of amounts owed for refunds, travel reimbursements, goods, and services received prior to June 30, 2020 and chargeable to the appropriations for the year then ended but paid subsequent to that date.

J. Compensated Absences

Annual and sick leave are a part of permanent employees' compensation as set forth in section 54-06-14 of the North Dakota Century Code. In general, accrued annual leave cannot exceed 30 days at April 30, while accrued sick leave is not limited. Employees are entitled to earn leave based on tenure of employment, within a range from a minimum of one working day, to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or retirement, per section 54-06-14 of the North Dakota Century Code. Employees vest in sick leave at ten years of credible service, at which time the employer is liable for 10% of the accumulated unused sick leave.

K. Pensions

For purposes of measuring the net pension liability 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 and OPEB expense, information about the fiduciary net position of 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. Fund Balance

The difference between fund assets and liabilities is "Fund Balance" on the governmental fund statements. Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned, or unassigned. All of the Commission's fund balance is considered restricted, which is made up of \$403,289 (National) and \$1,083,713 (State) for a total restricted fund balance of \$1,487,002. The Commission's fund balance is restricted by enabling legislation contained in the NDCC Chapter 4.1-03 to be spent only pursuant to that Chapter.

N. New Accounting Pronouncements

During fiscal year 2019, the Commission 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 Commission will implement the following new pronouncements for fiscal years ending after 2020: 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*, GASB Statement No. 91, *Conduit Debt Obligations*, GASB Statement No. 92, *Omnibus 2020*, GASB Statement No. 93, *Replacement of Interbank Offered Rates*, GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, and GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The effect that these GASB Statements will have on future financial statements has not yet been determined.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

A. Deposits

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC section 21-04-02 provides that public funds belonging to or in the custody of the state must be deposited in the Bank of North Dakota. Also, 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.

The bank balances were \$1,116,901 and \$1,474,451 at June 30, 2020 and 2019, respectively. All deposits are exposed to custodial credit risk because they are not covered by depository insurance and the deposits are uncollateralized. All of the Commission's deposits are at the Bank of North Dakota. Deposits with the Bank of North Dakota are considered uninsured; however, these deposits are guaranteed by the state of North Dakota (NDCC section 6-09-10).

#### B. Investments

All investments must be short-term (one year or less), risk free (federally insured or fully collateralized), and interest bearing. The fair value of investments was \$450,000 and \$450,000 at June 30, 2020 and 2019, respectively. All investments were certificates of deposit insured by the U.S. government. NDCC section 4.1-44-03 states the State Treasurer shall credit 20% of the investment income to the general fund in the state treasury as payment for services when provided without cost to the Commission, the remaining 80% is credited to the beef fund.

### **NOTE 3 - LONG-TERM LIABILITIES**

A summary of changes in the long-term liabilities for the fiscal years ended June 30, 2020 and 2019 is presented as follows:

|                         | Balance<br>7/1/2019 | Additions        | Reductions       | Balance<br>6/30/2020 | Current<br>Portion |
|-------------------------|---------------------|------------------|------------------|----------------------|--------------------|
| Compensated<br>absences | <u>\$ 34,021</u>    | <u>\$ 13,361</u> | <u>\$ 7,294</u>  | <u>\$ 40,088</u>     | <u>\$ 3,351</u>    |
|                         | Balance<br>7/1/2018 | Additions        | Reductions       | Balance<br>6/30/2019 | Current<br>Portion |
| Compensated<br>absences | <u>\$ 31,630</u>    | <u>\$ 13,981</u> | <u>\$ 11,590</u> | <u>\$ 34,021</u>     | <u>\$ 3,041</u>    |

### **NOTE 4 – North Dakota Public Employees Retirement System (NDPERS)**

The Commission participates in the North Dakota Public Employees Retirement System (NDPERS) - Main System. 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 the Plan

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 provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceeds 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 was 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. 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 of 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 for members enrolled prior to January 1, 2020. Member contribution rates are 7% and employer contribution rates are 8.26% for members enrolled after January 1, 2020.

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 and Pension Expense

At June 30, 2020 and June 30, 2019, the Commission has a long-term liability of \$207,750 and \$295,500, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and June 30, 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission'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, 2019, the Commission's proportion was 0.017725 percent, which was an increase of 0.000215 percent from its proportion measured as of June 30, 2018.

While the Commission's financial statements present expenditures on a modified accrual basis, the accrual based pension expense for the year ended June 30, 2020 is \$43,447 and \$53,844 for the year ended June 30, 2019.

**Actuarial assumptions.** The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                            |  |                   |                        |
|----------------------------|--|-------------------|------------------------|
| Inflation                  | 2.50%  |                   |                        |
| Salary increases           | Service at<br>Beginning of Year:   | State<br>Employee | Non-State<br>Employee: |
|                            | 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  | 7.50%, 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 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%               | 6.25%                                  |
| International Equity       | 21%               | 6.95%                                  |
| Private Equity             | 7%                | 10.15%                                 |
| Domestic Fixed Income      | 23%               | 2.11%                                  |
| International Fixed Income | 0%                | 0.00%                                  |
| Global Real Assets         | 19%               | 5.41%                                  |
| 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 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

**Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.** The following presents the Commission's proportionate share of the net pension liability as of June 30, 2019 calculated using the discount rate of 7.50 percent, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-

point higher (8.50 percent) than the current rate:

|   | <b>1% Decrease<br/>(6.50%)</b> | <b>Current Discount<br/>Rate (7.50%)</b> | <b>1% Increase (8.50%)</b> |
|---|--------------------------------|--|----------------------------|
| Commission's proportionate share of the net pension liability | \$297,869                      | \$207,750                                | \$132,034                  |

The following presents the Commission'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 Commission'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:

|   | <b>1% Decrease<br/>(5.32%)</b> | <b>Current Discount<br/>Rate (6.32%)</b> | <b>1% Increase (7.32%)</b> |
|---|--------------------------------|--|----------------------------|
| Commission's proportionate share of the net pension liability | \$401,530                      | \$295,500                                | \$207,022                  |

***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 5 – Other Post-Employment Benefits (OPEB)**

### **A. Description of the Plan**

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Title 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the Highway Patrolmen's Retirement System (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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

Retiree health insurance credit (RHIC) 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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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 is also available for early retirement with reduced benefits.

## C. OPEB Liabilities and OPEB Expense

At June 30, 2020 and June 30, 2019, the Commission has a long-term liability of \$13,271 and \$12,947, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and June 30, 2018, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net OPEB liability was based on the Commission's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2019 the Commission's proportion was 0.016523 percent which was an increase of 0.000084 from its proportion measured as of June 30, 2018.

While the Commission's financial statements present expenditures on a modified accrual basis, the accrual-based OPEB expense for the year ended June 30, 2020 is \$1,837 and \$1,631 for the year ended June 30, 2019.

**Actuarial assumptions.** The total OPEB liability in the July 1, 2019 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  | 7.25%, 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, 2019 are summarized in the following table:

| Asset Class                 | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------------|-------------------|--|
| Large Cap Domestic Equities | 33%               | 6.00%                                  |
| Small Cap Domestic Equities | 6%                | 7.30%                                  |
| International Equities      | 40%               | 2.07%                                  |
| Core-Plus Fixed Income      | 21%               | 6.95%                                  |

**Discount rate.** The discount rate used to measure the total OPEB liability was 7.25%. 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, 2019, calculated using the discount rate of 7.25%, 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

|              | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|--------------|---------------------|-------------------------------|---------------------|
| Commission's | \$16,939            | \$13,271                      | \$10,132            |

proportionate share  
of the net OPEB  
liability

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 (6.50%) | Current Discount<br>Rate (7.50%) | 1% Increase (8.50%) |
|---|---------------------|----------------------------------|---------------------|
| Commission's<br>proportionate share<br>of the net OPEB<br>liability | \$16,381            | \$12,947                         | \$10,003            |

#### **NOTE 6 - RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (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 and its agencies' employees and the university system. All state agencies participate in the RMF and their fund contribution is determined using a projected cost allocation approach. The statutory liability of the state is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The Commission also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Commission pays an annual premium to the Fire and Tornado Fund to cover for loss to business personal property, up to a limit of \$100,000. Replacement cost coverage is provided by estimating the replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$1,630,056 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Commission participates in the North Dakota Worker's Compensation Bureau, an enterprise fund of the state of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the state's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

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

#### **NOTE 7 – RELATED PARTY**

The Cattlemen's Beef Promotion and Research Board (CBPRB) is a related party in that the Beef Promotion and Research Act of 1985 and the Beef Promotion and Research Order require the Commission to collect one dollar per head of cattle sold and remit fifty cents to the CBPRB. The assessments collected and remitted to the CBPRB were \$563,238 and \$568,207 for fiscal years 2020 and 2019, respectively. The amount due to the CBPRB was \$58,610 and \$49,345 at June 30, 2020 and 2019, respectively.

The North Dakota Beef Commission has approved research grants for projects being completed by North Dakota State University. As of June 30, 2020, \$676,720 had been disbursed for these projects and \$209,255 is committed to these projects in future fiscal years. As of June 30, 2019, \$572,901 had been disbursed and \$349,013 was committed.

#### **NOTE 8 – COMMITMENTS AND CONTINGENCIES**

The North Dakota Beef Commission has entered into several grant agreement contracts to help fund various research projects. As of June 30, 2020, the total outstanding balance of these contracts was \$433,293.



## ***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\****

|      | Employer's<br>proportion of the<br>net pension<br>liability (asset) | Employer's<br>proportionate<br>share of the net<br>pension liability<br>(asset) | Employer's<br>covered-<br>employee payroll | Employer's proportionate<br>share of the net pension<br>liability (asset) as a<br>percentage of its covered-<br>employee payroll | Plan fiduciary net<br>position as a<br>percentage of the<br>total pension<br>liability |
|------|---|---|--|--|--|
| 2020 | 0.017725%   | \$ 207,750  | \$ 184,369                                 | 112.68%  | 71.66%   |
| 2019 | 0.017510%   | 295,500   | 179,880                                    | 164.28%  | 62.80%   |
| 2018 | 0.016960%   | 272,603   | 173,136                                    | 157.45%  | 61.98%   |
| 2017 | 0.016180%   | 157,690   | 163,056                                    | 96.71%   | 70.46%   |
| 2016 | 0.013468%   | 91,580  | 119,981                                    | 76.33%   | 77.15%   |
| 2015 | 0.013575%   | 86,163  | 114,348                                    | 75.35%   | 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 - Pension

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

|      | Statutorily<br>required<br>contribution | Contributions<br>in relation to<br>the statutorily<br>required<br>contribution | Contribution<br>deficiency<br>(excess) | Employer's<br>covered-<br>employee<br>payroll | Contributions as a<br>percentage of<br>covered-employee<br>payroll |
|------|---|--|--|---|--|
| 2020 | \$ 13,423                               | \$ (13,423)  | \$ -                                   | \$ 194,392                                    | 6.91%  |
| 2019 | 13,249                                  | (13,249)   | 0                                      | 184,379                                       | 7.19%  |
| 2018 | 12,808                                  | (12,808)   | 0                                      | 179,880                                       | 7.12%  |
| 2017 | 12,554                                  | (12,554)   | 0                                      | 173,136                                       | 7.25%  |
| 2016 | 11,805                                  | (11,805)   | 0                                      | 163,056                                       | 7.24%  |
| 2015 | 9,114                                   | (9,114)  | 0                                      | 119,981                                       | 7.60%  |

\*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\***

|      | Employer's<br>proportion of the<br>net OPEB liability<br>(asset) | Employer's<br>proportionate<br>share of the net<br>OPEB liability<br>(asset) | Employer's<br>covered-<br>employee payroll | Employer's proportionate<br>share of the net OPEB<br>liability (asset) as a<br>percentage of its covered-<br>employee payroll | Plan fiduciary net<br>position as a<br>percentage of the<br>total OPEB<br>liability |
|------|--|--|--|---|---|
| 2020 | 0.016523%  | \$ 13,271  | \$ 184,369                                 | 7.20%   | 63.13%  |
| 2019 | 0.016439%  | 12,947   | 179,880                                    | 7.20%   | 61.89%  |
| 2018 | 0.016004%  | 12,659   | 173,136                                    | 7.31%   | 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 - OPEB

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

|      | Statutorily<br>required<br>contribution | Contributions<br>in relation to<br>the statutorily<br>required<br>contribution | Contribution<br>deficiency<br>(excess) | Employer's<br>covered-<br>employee<br>payroll | Contributions as a<br>percentage of<br>covered-employee<br>payroll |
|------|---|--|--|---|--|
| 2020 | \$ 2,144                                | \$ (2,144)   | \$ -                                   | \$ 194,392                                    | 1.10%  |
| 2019 | 2,110                                   | (2,110)  | 0                                      | 184,379                                       | 1.14%  |
| 2018 | 2,051                                   | (2,051)  | 0                                      | 179,880                                       | 1.14%  |

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

## Notes to Required Supplementary Information

### *For the Year Ended June 30, 2020*

#### ***Changes of benefit terms - Pension.***

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

#### ***Changes of benefit terms - OPEB.***

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

#### ***Changes of assumptions - Pension.***

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

***Changes of assumptions - OPEB.***

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.50% to 7.25%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

## *Supplementary Information*

### **Funding Source Balance Sheet**

June 30, 2020

|  | National          | State               | Totals              |
|--|-------------------|---------------------|---------------------|
| <b><u>Assets</u></b>                       |                   |                     |                     |
| Cash and Cash Equivalents                  | \$ 241,468        | \$ 875,433          | \$ 1,116,901        |
| Investments                                | 201,000           | 249,000             | 450,000             |
| Assessments Receivable                     | 51,507            | 49,141              | 100,648             |
| Interest Receivable                        | 198               | 122                 | 320                 |
| Total Assets                               | <u>\$ 494,173</u> | <u>\$ 1,173,696</u> | <u>\$ 1,667,869</u> |
| <b><u>Liabilities and Fund Balance</u></b> |                   |                     |                     |
| Liabilities:                               |                   |                     |                     |
| Accounts Payable                           | \$ 13,325         | \$ 47,752           | \$ 61,077           |
| Accrued Payroll                            |                   | 30,592              | 30,592              |
| Due to Cattlemen's Beef Board              | 58,610            |                     | 58,610              |
| Due to National Cattlemen's Beef Assn.     | 17,583            | 11,639              | 29,222              |
| Due to Other States                        | 1,366             |                     | 1,366               |
| Total Liabilities                          | <u>\$ 90,884</u>  | <u>\$ 89,983</u>    | <u>\$ 180,867</u>   |
| Fund Balance:                              |                   |                     |                     |
| Restricted                                 | \$ 403,289        | \$ 1,083,713        | \$ 1,487,002        |
| Total Fund Balance                         | <u>\$ 403,289</u> | <u>\$ 1,083,713</u> | <u>\$ 1,487,002</u> |
| Total Liabilities and Fund Balance         | <u>\$ 494,173</u> | <u>\$ 1,173,696</u> | <u>\$ 1,667,869</u> |



## Funding Source Balance Sheet

June 30, 2019

|  | National          | State               | Totals              |
|--|-------------------|---------------------|---------------------|
| <u>Assets</u>                          |                   |                     |                     |
| Cash and Cash Equivalents              | \$ 540,106        | \$ 934,345          | \$ 1,474,451        |
| Investments                            | 201,000           | 249,000             | 450,000             |
| Assessments Receivable                 | 43,282            | 41,654              | 84,936              |
| Interest Receivable                    | 406               | 228                 | 634                 |
| Total Assets                           | <u>\$ 784,794</u> | <u>\$ 1,225,227</u> | <u>\$ 2,010,021</u> |
| <u>Liabilities and Fund Balance</u>    |                   |                     |                     |
| Liabilities:                           |                   |                     |                     |
| Accounts Payable                       | \$ 99,793         | \$ 18,033           | \$ 117,826          |
| Accrued Payroll                        |                   | 22,710              | 22,710              |
| Due to Cattlemen's Beef Board          | 49,345            |                     | 49,345              |
| Due to National Cattlemen's Beef Assn. | 14,803            | 9,791               | 24,594              |
| Due to Other States                    | 1,674             |                     | 1,674               |
| Total Liabilities                      | <u>\$ 165,615</u> | <u>\$ 50,534</u>    | <u>\$ 216,149</u>   |
| Fund Balance:                          |                   |                     |                     |
| Restricted                             | \$ 619,179        | \$ 1,174,693        | \$ 1,793,872        |
| Total Fund Balance                     | <u>\$ 619,179</u> | <u>\$ 1,174,693</u> | <u>\$ 1,793,872</u> |
| Total Liabilities and Fund Balance     | <u>\$ 784,794</u> | <u>\$ 1,225,227</u> | <u>\$ 2,010,021</u> |

## Funding Source Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Fiscal Year Ended June 30, 2020

|  | National     | State        | Total        |
|--|--------------|--------------|--------------|
| <b><u>Revenues</u></b>                                   |              |              |              |
| Gross Assessment Revenue                                 | \$ 1,144,820 | \$ 1,130,716 | \$ 2,275,536 |
| Less:  |              |              |              |
| Refunds  |              | (136,075)    | (136,075)    |
| Assessment Revenue Remitted<br>to Other States           | (17,443)     |              | (17,443)     |
| Assessment Revenue Remitted<br>to Cattlemen's Beef Board | (563,238)    |              | (563,238)    |
| Net Assessment Revenues                                  | \$ 564,139   | \$ 994,641   | \$ 1,558,780 |
| Interest Income  | 6,089        | 4,860        | 10,949       |
| Other Revenues   | 4,363        | 3,842        | 8,205        |
| Total Revenues   | \$ 574,591   | \$ 1,003,343 | \$ 1,577,934 |
| <b><u>Expenditures</u></b>                               |              |              |              |
| Program Expenditures:                                    |              |              |              |
| International Promotion                                  | \$ 72,965    | \$ 172,965   | \$ 245,930   |
| Promotion  | 96,688       | 186,688      | 283,376      |
| Industry Information                                     | 41,582       | 42,990       | 84,572       |
| Research   | 250,368      | 172,919      | 423,287      |
| Consumer Information                                     | 82,960       | 82,681       | 165,641      |
| National Program Development                             | 168,841      | 112,822      | 281,663      |
| Total Program Expenditures                               | \$ 713,404   | \$ 771,065   | \$ 1,484,469 |
| Administration   | 77,077       | 323,258      | 400,335      |
| Total Expenditures                                       | \$ 790,481   | \$ 1,094,323 | \$ 1,884,804 |
| Revenues (Under) Over<br>Expenditures                    | \$ (215,890) | \$ (90,980)  | \$ (306,870) |
| Fund Balance, Beginning of<br>Year                       | 619,179      | 1,174,693    | 1,793,872    |
| Fund Balance, End of Year                                | \$ 403,289   | \$ 1,083,713 | \$ 1,487,002 |

## Funding Source Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Fiscal Year Ended June 30, 2019

|   | National     | State        | Total        |
|---|--------------|--------------|--------------|
| <u>Revenues</u>                                       |              |              |              |
| Gross Assessment Revenue                              | \$ 1,156,772 | \$ 1,138,819 | \$ 2,295,591 |
| Less:   |              |              |              |
| Refunds   |              | (135,217)    | (135,217)    |
| Assessment Revenue Remitted to Other States           | (20,357)     |              | (20,357)     |
| Assessment Revenue Remitted to Cattlemen's Beef Board | (568,207)    |              | (568,207)    |
| Net Assessment Revenues                               | \$ 568,208   | \$ 1,003,602 | \$ 1,571,810 |
| Interest Income                                       | 5,323        | 4,424        | 9,747        |
| Beef Gift Certificates                                | 225          |              | 225          |
| Other Revenues  | 10,743       | 3,972        | 14,715       |
| Total Revenues  | \$ 584,499   | \$ 1,011,998 | \$ 1,596,497 |
| <u>Expenditures</u>                                   |              |              |              |
| Program Expenditures:                                 |              |              |              |
| International Promotion                               | \$ 17,615    | \$ 17,615    | \$ 35,230    |
| Promotion   | 67,571       | 67,571       | 135,142      |
| Domestic/International Special Project                |              | 75,000       | 75,000       |
| Industry Information                                  | 12,617       | 12,617       | 25,234       |
| Research  | 237,914      | 138,036      | 375,950      |
| Consumer Information                                  | 129,116      | 129,666      | 258,782      |
| National Program Development                          | 170,461      | 113,880      | 284,341      |
| Total Program Expenditures                            | \$ 635,294   | \$ 554,385   | \$ 1,189,679 |
| Beef Gift Certificates                                | 225          |              | 225          |
| Administration  | 71,279       | 304,037      | 375,316      |
| Total Expenditures                                    | \$ 706,798   | \$ 858,422   | \$ 1,565,220 |
| Revenues Over Expenditures                            | \$ (122,299) | \$ 153,576   | \$ 31,277    |
| Fund Balance, Beginning of Year                       | 741,478      | 1,021,117    | 1,762,595    |
| Fund Balance, End of Year                             | \$ 619,179   | \$ 1,174,693 | \$ 1,793,872 |



STATE OF NORTH DAKOTA  
OFFICE OF THE STATE AUDITOR  
STATE CAPITOL  
600 E. BOULEVARD AVENUE – DEPT 117  
BISMARCK, NORTH DAKOTA 58505

## *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 a Financial Statement Performed in Accordance with Government Auditing Standards**

#### Independent Auditor's Report

Members of the Legislative Assembly

Members of the North Dakota Beef Commission

Ms. Nancy Jo Bateman, Executive Director

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Dakota Beef Commission Fund as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise North Dakota Beef Commission's financial statements, and have issued our report thereon dated October 13, 2020.

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

In planning and performing our audit of the financial statements, we considered North Dakota Beef Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Beef Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota Beef Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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.

We did identify a certain deficiency in internal control, described in the accompanying *Schedule of Findings, Recommendations, and Management's Response* as finding 20-1 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the North Dakota Beef Commission Fund's financial statements are free from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, the Beef Promotion and Research Act of 1985 (the "Act"), and the Beef Promotion and Research Order (the "Order") relative to the use and investment of funds collected by the North Dakota Beef Commission and with terms described in Section 1260.149(f) and Section 1260.181(b) of the Order relative to prohibited uses of funds collected by the North Dakota Beef Commission, 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*.

In connection with our audit, nothing came to our attention that caused us to believe that (i) the North Dakota Beef Commission was not in compliance with the provisions of the Beef Promotion and Research Act of 1985 (the "Act") and the Beef Promotion and Research Order (the "Order") relative to the use of funds collected by the North Dakota Beef Commission insofar as they relate to accounting matters, or (ii) that the North Dakota Beef Commission failed to accurately allocate expenses that it shared with any other entity or funding source in a manner that complies with the Act and Order.

Further, nothing came to our attention that caused us to believe the North Dakota Beef Commission was not in compliance with the provisions of the Beef Board Investment Policy for Qualified State Beef Councils dated May 13, 2020, which describes the type of instruments in which the North Dakota Beef Commission may invest. Our audits were not, however, directed primarily toward obtaining knowledge of such noncompliance.

### **North Dakota Beef Commission's Response to Findings**

North Dakota Beef Commission's response to the findings identified in our audit, are described in the accompanying *Schedule of Findings, Recommendations, and Managements Response*. The North Dakota Beef Commission's response was not subjected to the auditing procedures applied to the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/S/

Joshua C. Gallion  
State Auditor

Bismarck, North Dakota  
October 13, 2020



## 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 special-purpose financial statement?*

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?*

Except for our finding 20-1 on page 32 surrounding the preparation of financial statements, the Commission was in compliance with statutes, laws, rules and regulations.

*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 was one finding the prior audit report surrounding the preparation of financial statements and the issue still exists as the Commission is not staffed with personnel fully knowledgeable of GAAP. Management of the Commission agreed the recommendation and is aware of the risk involved with the State Auditor's Office preparing their financial statements and note disclosures.

*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.*

None noted.

3. *Identify any significant audit adjustments.*

None.

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 special-purpose financial statement.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are the high-risk information technology systems critical to the North Dakota Beef Commission.

# **Schedule of Findings, Recommendations, and Management's Response**

## **PREPARATION OF FINANCIAL STATEMENTS (Finding 20-1)**

### **Condition:**

The North Dakota Beef Commission does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, required supplementary information, and supplementary information as required by Generally Accepted Accounting Standards (GAAP).

### **Criteria:**

Management of the North Dakota Beef Commission is responsible for establishing proper internal control over the preparation of the Beef Commission's annual financial statements to ensure that financial statements, note disclosures, required supplementary information, and supplementary information are reliable, accurate, free of material misstatement, and in accordance with GAAP.

### **Cause:**

This deficiency is due to limited resources and the decision made to not allocate additional resources to financial statement preparation.

### **Effect:**

The Beef Commission's management is aware of the deficiency and addresses it by recording the underlining trial balance, as well as reviewing and approving the adjusting journal entries. However, as of June 30, 2020 and June 30, 2019, the financial statements, note disclosures, required supplementary information, and supplementary information were prepared by the North Dakota State Auditor's Office.

### **Recommendation:**

We recommend the North Dakota Beef Commission consider the additional risk of having the auditors assist in the preparation of the financial statements, note disclosures, required supplementary information, and supplementary information and consider preparing them in the future.

### **North Dakota Beef Commission Response/Planned Corrective Actions:**

The ND Beef Commission has had the State Auditor's Office prepare financial statements, notes to the financial statements and all required supplementary information since 1986 when the federal law mandating a GAAP audit began. This has been done because we recognize that we do not have the staff with the knowledge, skills or ability to prepare these documents. The NDBC is aware that there is a weakness and risk associated with having the State Auditor's Office prepare these documents. We accept that fact and will continue to have the State Auditor's Office prepare these documents and NDBC staff will continue to review and accept responsibility for the preparation and fair presentation of the financial statements in accordance with GAAP even if the auditor assisted in drafting those financial statements.

# Governance Communication

October 13, 2020

North Dakota Beef Commission

Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the North Dakota Beef Commission for the years ended June 30, 2020 and 2019 and have issued our report thereon dated October 13, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standard*, 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 August 3, 2020. 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 North Dakota Beef Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. 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.

## **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. We did not detect any misstatements as result of audit procedures.

## **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 13, 2020.

## **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 the North Dakota Beef Commission, management of the North Dakota Beef Commission, and the Legislative Audit and Fiscal Review Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in dark ink, appearing to read "Dust Wal", with a long, sweeping horizontal line extending to the right.

Dustin Walcker,  
Audit Manager



Office of the  
State Auditor

NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

**NORTH DAKOTA STATE AUDITOR'S OFFICE**

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