NORTH DAKOTA
OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

North Dakota Mill and Elevator Association

Audit Report for the Years Ended June 30, 2021 and 2020

Client Code 475

This audit has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10

Office of the State Auditor

KEY PERSONNEL

Robyn Hoffmann
CPA, AUDIT MANAGER

Alex Mehring
CPA, LEAD AUDITOR

Jason Schwartz
STAFF AUDITOR

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INDEPENDENT AUDITOR'S REPORT

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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the North Dakota Mill and Elevator Association'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 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.

OPINIONS

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, 2021 and 2020, 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, 2021 and 2020, 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 require 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 inquires, 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 22, 2021 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
North Dakota State Auditor

Bismarck, North Dakota

October 22, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of 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, 2021. Please read this information in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Condensed Financial Data

	FY 2021	FY 2020	FY 2019
Current Assets	$ 85,572,875	$ 75,418,757	$ 67,936,435
Noncurrent Assets	821,191	506,913	476,558
Capital Assets	127,583,562	110,467,986	109,844,536
Total Assets	$ 213,977,628	$ 186,393,656	$ 178,257,529
Deferred Outflow of Resources	$ 16,965,528	$ 6,510,144	$ 6,990,669
Current Liabilities	$ 56,750,590	$ 56,432,608	$ 52,358,632
Noncurrent Liabilities	60,325,694	27,559,847	33,400,540
Total Liabilities	$ 117,076,284	$ 83,992,455	$ 85,759,172
Deferred Inflow of Resources	$ 3,938,828	$ 5,329,873	$ 1,284,345
Invested in Capital Assets	$ 127,583,562	$ 110,467,986	$ 109,844,536
Unrestricted	(17,655,519)	(6,886,514)	(11,639,825)
Total Net Position	$ 109,928,044	$ 103,581,472	$ 98,204,711
Operating Revenue			
Gross Sales	$ 339,161,011	$ 299,641,646	$ 312,342,791
Sales Deductions	(71,335,777)	(67,144,407)	(66,745,464)
Net Sales	$ 267,825,234	$ 232,467,239	$ 245,597,327
Nonoperating Revenue			
Interest Income	4,431	11,496	9,246
Miscellaneous	361,366	83,576	80,392
Total Revenues	$ 268,191,031	$ 232,592,311	$ 245,686,965
Operating Expenses			
Material Cost	$ 210,828,503	$ 182,080,121	$ 197,054,152
Manufacturing, Selling, General	42,633,743	37,340,657	36,233,606
Non-operating Expenses			
Interest Expense	1,247,260	1,702,182	1,758,116
Other	21,205	50,739	23,880
Total Expenses	$ 254,730,712	$ 221,173,699	$ 235,064,754
Revenue Over Expenses	$ 13,460,320	$ 11,418,612	$ 10,622,211
Transfer to Industrial Commission	(47,080)	(47,080)	(41,393)
Transfer to General Fund	(6,393,652)	(5,423,841)	(7,568,325)
Transfer to Ag Fuel Tax Fund	(673,016)	(570,930)	(531,111)
Change in Net Position	$ 6,346,572	$ 5,376,761	$ 2,481,383
Beginning Net Position, as restated	103,581,472	98,204,711	95,723,328
Ending Net Position	$ 109,928,044	$ 103,581,472	$ 98,204,711

- Gross sales reached $339,161,000.
- During the fiscal year, the Mill shipped 15,785,000 hundredweight of flour.
- The Mill made a profit of $13,460,000.
- Mill operations provided more than $250,767,000 to the region and another $581,779,000 in secondary economic activity for a total economic impact of more than $832,546,000.

RESULTS OF OPERATIONS

Certain operating information is set forth below, as a percentage of gross sales for the fiscal years ended June 30, 2021, June 30, 2020 and June 30, 2019:

	FY 2021	FY 2020	FY 2019
Gross Margin	16.8%	16.8%	15.5%
Material Costs	62.2%	60.8%	63.1%
Operating Costs	12.6%	12.5%	11.6%
Profits	4.0%	3.8%	3.4%

Gross sales reached $339,161,000 for the fiscal year compared to $299,642,000 last year and $312,343,000 in fiscal year 2019. Sales of spring wheat flour were 14,511,000 hundredweight or 92 percent of our total sales while sales of durum products were 1,274,000 hundredweight. This compares to sales of 13,297,000 hundredweight of spring wheat flour and 1,012,000 hundredweight of durum products last year. Bulk flour sales represent 84 percent of the flour sold. Flour packed in bags accounted for 16 percent of the flour sold.

As a result of this sales volume, the Mill spent more than $205,702,000 buying wheat and durum. This is up from the previous year purchases of $175,531,000 and up from purchases in fiscal year 2019 of $183,640,000. In fiscal year 2021 the mill settled the purchase of 33,768,000 bushels of wheat and durum while in fiscal year 2020 the mill settled the purchase of 30,543,000 bushels. The majority of the grain purchased is from North Dakota growers or grain elevators.

In addition to spending over $205,702,000 on grain, most of which went to North Dakota farmers, the Mill also spent $24,913,000 with other North Dakota based suppliers. Payroll costs for the North Dakota Mill were $20,152,000 for the year ended June 30, 2021. These three items when added together show that the Mill provided a direct economic impact to the region of over $250,767,000. 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 $581,779,000 in secondary economic activity resulting in a total economic impact of more than $832,546,000.

Operating costs were $42,634,000 compared to $37,341,000 last year and $36,234,000 in fiscal year 2019. This is an increase of $5,293,000 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 $2.71 from $2.62 in fiscal year 2020 and $2.46 in fiscal year 2019.

Gross margins as a percent of gross sales remained 16.8 percent for fiscal years 2021 and 2020 increasing from 15.5 percent in fiscal year 2019. Profits as a percent of gross sales was 4.0 percent compared to 3.8 percent last year and the 3.4 percent in the FY 2019. The Mill experienced a profit of $13,460,000 compared to a profit of $11,419,000 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, 2021 provided cash of $17,762,000 compared to $11,214,000 in fiscal year 2020 and cash of $25,984,000 in fiscal year 2019. 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 $14,363,000 compared to $13,076,000 in fiscal year 2020 and $12,310,000 in 2019.

CASH FLOWS FROM FINANCING ACTIVITIES

The North Dakota Mill had $26,000,000 of short-term debt outstanding and payable to the Bank of North Dakota on June 30, 2021 compared to $30,000,000 last year and $25,000,000 in fiscal year 2019. The Mill also had $36,401,000 in long term debt outstanding and payable to the Bank of North Dakota on June 30, 2021compared to 17,651,000 in fiscal year 2020.

NET POSITION

Current assets increased $10,154,000 from last year. This increase from last year is due primarily to increases in accounts receivables and inventories. Accounts receivables increased $6,218,000 while inventories rose $2,492,000 from last year's values.

The carrying value of capital assets increased $17,116,000 to $127,584,000 for the year ended June 30, 2021. For more detailed information regarding capital assets and long-term debt activity see the Notes to the Financial Statements.

Current liabilities increased $318,000 from last year. Long term liabilities increased 32,766,000 from last year. The major changes were in the long term notes payable to the Bank of North Dakota, which increased 16,853,000 and to the net pension liability which increased 15,927,000. The total net position increased by $6,347,000, 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 in 2020 to 425 million hundredweights up 0.7% from 2019. Production of whole wheat flour in the U.S. was estimated at 20.1 million hundredweights which is a 10% decrease from 2019. Durum flour and semolina production was 33.8 million hundredweights, up 7.2% from 2019. We expect grain and financial markets to continue to be volatile.

North Dakota produced another quality spring wheat and durum crop this year. Average spring wheat protein is estimated to be 15.4%. Harvest conditions were good. 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

ASSETS	June 30, 2021	June 30, 2020
Current assets:		
Cash and cash equivalents	$ 1,854,533	$ 225
Receivables, net (note 4)	52,803,836	46,585,657
Inventories (note 5)	29,934,013	27,441,721
Prepaid expense	980,493	1,391,154
Total current assets	$ 85,572,875	$ 75,418,757
Noncurrent assets:		
Patronage capital credits	$ 546,191	$ 493,763
Other assets	275,000	13,150
Capital assets, net (note 6)	127,583,562	110,467,986
Total noncurrent assets	128,404,753	110,974,899
Total assets	$ 213,977,628	$ 186,393,656
DEFERRED OUTFLOW OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	$ 497,649	$ 735,025
Derived from pensions	16,142,741	5,477,082
Derived from other post-employment benefits	325,138	298,037
Total deferred outflows of resources	$ 16,965,528	$ 6,510,144
LIABILITIES		
Current liabilities:		
Checks issued in excess of cash		$ 551,062
Accounts payable and other liabilities (note 7)	$ 19,533,130	17,396,001
Due to state general fund	6,393,652	5,423,841
Due to ag products utilization fund	673,016	570,930
Derivative instrument	497,650	735,025
Notes payable	26,000,000	30,000,000
Long-term liabilities - current portion		
Notes payable	3,653,142	1,755,749
Total current liabilities	$ 56,750,590	$ 56,432,608
Noncurrent liabilities:		
Notes payable	$ 32,748,069	$ 15,895,104
Compensated absences	1,117,359	1,153,573
Net other post-employment benefit liability	653,232	631,127
Net pension liability	25,807,034	9,880,043
Total noncurrent liabilities	60,325,694	27,559,847
Total liabilities	$ 117,076,284	$ 83,992,455
DEFERRED INFLOWS OF RESOURCES		
Derived from pensions	$ 3,923,167	$ 5,310,157
Derived from other post-employment benefits	15,661	19,716
Total deferred inflows of resources	$ 3,938,828	$ 5,329,873
NET POSITION		
Invested in capital assets	$ 127,583,562	$ 110,467,986
Unrestricted	(17,655,519)	(6,886,514)
Total net position	$ 109,928,044	$ 103,581,472

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

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

OPERATING REVENUES	June 30, 2021	June 30, 2020
Sales (net of sales deductions of $71,335,777 and $67,144,407, respectively)	$ 267,825,234	$ 232,497,239
Total operating revenues	$ 267,825,234	$ 232,497,239
OPERATING EXPENSES		
Material cost	$ 210,828,503	$ 182,080,121
Wages and benefits	24,026,759	19,858,652
Repairs and maintenance	2,236,090	2,521,953
Operating supplies	1,317,438	938,357
Utilities	4,287,048	3,980,858
Insurance	1,845,784	1,502,888
Outside services	1,536,908	1,412,059
Office supplies	138,208	107,067
Computer expense	265,505	326,814
Communications	60,053	68,834
Travel and entertainment	52,314	165,924
Employee expense	127,533	144,536
Safety expense	116,338	184,679
Postage and mailing	26,353	25,622
Advertising	112,675	135,128
Dues and subscriptions	183,011	163,968
Legal and professional	64,899	39,027
Depreciation	6,236,827	5,764,291
Total operating expenses	$ 253,462,246	$ 219,420,778
Operating income	$ 14,362,988	$ 13,076,461
NONOPERATING REVENUES (EXPENSES)		
Interest income	$ 4,431	$ 11,496
Interest expense	(1,247,260)	(1,702,182)
Miscellaneous income	361,366	83,576
Other expense	(21,205)	(50,739)
Total nonoperating expenses	$ (902,668)	$ (1,657,849)
Gain before transfers	$ 13,460,320	$ 11,418,612
Transfer to state general fund	$ (6,393,652)	$ (5,423,841)
Transfer to ag products utilization fund	(673,016)	(570,930)
Transfer to Industrial Commission	(47,080)	(47,080)
Change in net position	$ 6,346,572	$ 5,376,761
Total net position - beginning of year	$ 103,581,472	$ 98,204,711
Total net position - ending	$ 109,928,044	$ 103,581,472

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

Comparative Statement of Cash Flows

	June 30, 2021	June 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 333,304,199	$ 292,490,482
Payments to suppliers	(296,320,842)	(263,146,535)
Payments to employees	(19,221,119)	(18,129,739)
Net cash provided by operating activities	$ 17,762,238	$ 11,214,208
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from noncapital debt	$ 77,349,165	$ 21,000,000
Principal paid on noncapital debt	(62,598,807)	(17,693,289)
Interest paid on noncapital debt	(1,247,260)	(1,702,182)
Ag promotion	(21,205)	(50,739)
Transfer to Industrial Commission	(47,080)	(47,080)
Transfer to state general fund	(5,423,841)	(7,568,325)
Transfer to ag products utilization fund	(570,930)	(531,111)
Net cash used by noncapital financing activities	$ 7,440,042	$ (6,592,726)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	$ (23,352,403)	$ (6,387,741)
Net cash used by capital and related financing activities	$ (23,352,403)	$ (6,387,741)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income on investments	$ 4,431	$ 11,496
Net cash provided by investing activities	$ 4,431	$ 11,496
Net increase in cash and cash equivalents	$ 1,854,308	$ (1,754,763)
Cash and cash equivalents, beginning	225	1,754,988
Cash and cash equivalents, ending	$ 1,854,533	$ 225
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	$ 14,362,988	$ 13,076,461
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,236,827	5,764,291
Pension and OPEB expense	4,799,339	2,027,123
Other nonoperating income	361,366	83,576
Increase in receivables, net	(6,218,179)	(7,234,740)
Increase in inventories	(2,492,292)	(2,046,724)
Decrease in prepaid expense	410,660	28,630
Increase in patronage capital credits	(52,428)	(30,355)
Increase in other assets	(261,850)	
Increase (Decrease) in accounts payable	574,954	(164,516)
Increase in accrued payroll	979,896	529,060
Increase in other liabilities	34,551	8,672
(Decrease) Increase in compensated absences	(39,547)	68,015
Increase in deferred outflows for pension and OPEB	(934,047)	(895,285)
Total adjustments	$ 3,399,250	$ (1,862,253)
Net cash provided by operating activities	$ 17,762,238	$ 11,214,208

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 includes resources derived from customer sales which may be used to meet the Mill's ongoing obligations.

N. 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.

O. NEW ACCOUNTING PRONOUNCEMENTS

During fiscal year 2020, the Mill adopted GASB Statement No.95, *Postponement of the Effective Dates of Certain Authoritative Guidance.*

During fiscal year 2021, the Mill adopted GASB Statement No. 84, *Fiduciary Activities* 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 Mill will implement the following new pronouncements for fiscal years ending after 2021: 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 Interest – 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,* and GASB Statement No. 96, *Subscription-Based Information Technology*

Arrangements, and 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 (N.D.C.C.) sections 6-09-07 and 21-04-02 govern the deposit and investment of public funds.

N.D.C.C. 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." N.D.C.C. 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, 2021 and 2020, the carrying amount of the Mill's deposits were $1,854,533 and $225, respectively, and the bank balances were $4,450,925 and $5,452,239, 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 (N.D.C.C. section 6-09-10).

NOTE 4 | RECEIVABLES

Receivables at June 30, 2021 and 2020 consist of the following:

		Allowance		
June 30, 2021	Gross Receivables	Bad Debts	Billbacks/ Promotional	Net Receivables
Current Receivables				
Accounts	$ 54,249,684	$ (1,831,713)	$ (305,723)	$ 52,112,248
Margin accounts	691,588			691,588
Total Current Receivables	$ 54,941,272	$ (1,831,713)	$ (305,723)	$ 52,803,836

June 30, 2020	Gross Receivables	Allowance Bad Debts	Allowance Billbacks/ Promotional	Net Receivables
Current Receivables				
Accounts	$ 46,983,204	$ (2,008,873)	$ (340,288)	$ 44,634,043
Margin accounts	1,946,614			1,946,614
Other	5,000			5,000
Total Current Receivables	$ 48,934,818	$ (2,008,873)	$ (340,288)	$ 46,585,657

At June 30, 2021 and 2020, the ages of gross accounts receivable were as follows:

	2021	2020
Current	$ 31,810,756	$ 25,537,946
1-30 Days	18,324,910	13,186,041
31-60 Days	3,283,410	4,604,870
61-90 Days	416,145	2,616,915
Over 90 Days	414,463	1,037,432
	$ 54,249,684	$ 46,983,204

NOTE 5 | INVENTORIES

At June 30, 2021 and 2020, inventories consisted of the following:

	2021	2020
Grain	$ 22,667,562	$ 20,687,562
Flour, Feed, Resale	6,525,820	5,862,709
Supplies	740,631	891,450
Total Inventories	$ 29,934,013	$ 27,441,721

The Mill's net position in the grain market at June 30, 2021 and 2020 were as follows:

	2021 Bushels		2020 Bushels	
	Wheat	Durum	Wheat	Durum
Company Owned (Priced) Grain and Flour on Hand	2,504,193	199,332	2,078,861	288,947
Open Purchase Contracts				
Cash	4,417,779	518,161	2,723,592	605,896
Futures	(610,000)		3,620,000	
Subtotal	6,311,972	717,493	8,422,453	894,843
Committed to Production	(6,313,916)	(546,348)	(8,629,631)	(696,151)
Net Position (Short) Long	(1,944)	171,145	(207,178)	198,692

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, 2021 and 2020 is below:

	Balance July 1, 2020	Additions	Deletions	Transfers	Balance June 30, 2021
Capital Assets, Non-Depreciable:					
Land	$ 1,783,611				$ 1,783,611
Construction in Progress	25,007,467	$ 23,352,403		$ (25,989,493)	22,370,377
Total Capital Assets, Non-Depreciable	$ 26,791,078	$ 23,352,403		$ (25,989,493)	$ 24,153,988
Capital Assets, Depreciable:					
Infrastructure	$ 4,666,240		$ (19,661)	$ 13,141,450	$ 17,788,029
Buildings	60,206,020		(8,431)	12,078,984	72,276,573
Machinery & Equipment	92,677,192		(1,677,148)	620,709	91,620,753
Intangibles	1,722,253			72,596	1,794,849
Furniture & Fixtures	977,410		(35,772)	75,754	1,017,392
Total Capital Assets, Depreciable	$ 160,249,115		$ (1,741,012)	$ 25,989,493	$ 184,497,596
Less Accumulated Depreciation:					
Infrastructure	$ 2,417,685	$ 405,401	$ (19,661)		$ 2,803,425
Buildings	17,827,923	1,735,131	(8,432)		19,554,622
Machinery & Equipment	54,798,050	3,845,579	(1,677,149)		56,966,480
Intangibles	899,651	159,453			1,059,104
Furniture & Fixtures	628,898	91,265	(35,772)		684,391
Total Accumulated Depreciation	$ 76,572,207	$ 6,236,829	$ (1,741,014)		$ 81,068,022
Total Capital Assets, Depreciable, Net	$ 83,676,908	$ (6,236,829)	$ 2	$ 25,989,493	$ 103,429,574
Capital Assets, Net	$ 110,467,986	$ 17,115,574	$ 2	$ -	$ 127,583,562

	Balance July 1, 2019	Additions	Deletions	Transfers	Balance June 30, 2020
Capital Assets, Non-Depreciable:					
Land	$ 451,522			$ 1,332,089	$ 1,783,611
Construction in Progress	23,671,443	$ 6,387,741		(5,051,717)	25,007,467
Total Capital Assets, Non-Depreciable	$ 24,122,965	$ 6,387,741		$ (3,719,628)	$ 26,791,078
Capital Assets, Depreciable:					
Infrastructure	$ 4,083,368			$ 582,872	$ 4,666,240
Buildings	57,427,274			2,778,746	60,206,020
Machinery & Equipment	92,460,376		$ (66,369)	283,186	92,677,192
Intangibles	1,797,196		(103,180)	28,237	1,722,253
Furniture & Fixtures	930,823			46,587	977,410
Total Capital Assets, Depreciable	$ 156,699,037		$ (169,549)	$ 3,719,628	$ 160,249,115
Less Accumulated Depreciation:					
Infrastructure	$ 2,301,309	$ 116,376			$ 2,417,685
Buildings	16,335,863	1,492,060			17,827,923
Machinery & Equipment	50,964,542	3,899,877	$ (66,369)		54,798,050
Intangibles	831,056	171,775	(103,180)		899,651
Furniture & Fixtures	544,695	84,203			628,898
Total Accumulated Depreciation	$ 70,977,465	$ 5,764,291	$ (169,549)		$ 76,572,207
Total Capital Assets, Depreciable, Net	$ 85,721,572	$ (5,764,291)	$ -	$ 3,719,628	$ 83,676,908
Capital Assets, Net	$ 109,844,536	$ 623,450	$ -	$ -	$ 110,467,986

NOTE 7 | ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2021 and 2020 were as follows:

	2021	2020
Accounts Payable	$ 6,992,237	$ 4,531,611
Scale Accrued Purchases	8,345,435	9,680,045
Accrued Gain Sharing	3,288,183	2,417,922
Accrued Payroll	691,692	585,219
Accrued Payroll Taxes and Benefits	28,364	25,202
Accrued Commissions	84,354	49,803
Compensated Absences, Current Portion	102,865	106,199
Total accounts payable and accrued liabilities	$ 19,533,130	$ 17,396,001

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, 2021, $34,000,000 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, 2021 and 2020, the rates were 1.75% and 2.4365%, respectively. Short-term debt activity for the years ended June 30, 2021 and 2020 were as follows:

	Balance July 1, 2020	Draws	Repayments	Balance June 30, 2021
Line of credit	$ 30,000,000	$ 37,349,165	$ (41,349,165)	$ 26,000,000

	Balance July 1, 2019	Draws	Repayments	Balance June 30, 2020
Line of credit	$ 25,000,000	$ 21,000,000	$ (16,000,000)	$ 30,000,000

NOTE 9 | LONG-TERM LIABILITIES

The Mill borrowed $40,000,000 during fiscal year 2021 from the Bank of North Dakota to finance current operations and it is recorded as a notes payable. The interest rate is fixed at 2.5% and the term is ten 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, 2021 and 2020 is presented as follows:

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion	Noncurrent Portion
Compensated Absences	$ 1,259,772	$ 954,183	$ (993,731)	$ 1,220,224	$ 102,865	$ 1,117,359
Notes Payable	17,650,853	40,000,000	(21,249,642)	36,401,211	3,653,142	32,748,069
Total Long-Term Liabilities	$ 18,910,625	$ 40,954,183	$ (22,243,373)	$ 37,621,435	$ 3,756,007	$ 33,865,428

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion	Noncurrent Portion
Compensated Absences	$ 1,191,757	$ 976,798	$ (908,783)	$ 1,259,772	$ 106,199	$ 1,153,573
Notes Payable	19,344,140		(1,693,287)	17,650,853	1,755,749	15,895,104
Total Long-Term Liabilities	$ 20,535,897	$ 976,798	$ (2,602,070)	$ 18,910,625	$ 1,861,948	$ 17,048,677

The schedule of maturities of notes payable is as follows:

Fiscal Year	Principal	Interest	Total
2022	$ 3,653,142	$ 868,579	$ 4,521,721
2023	3,745,524	776,197	4,521,721
2024	3,838,393	683,328	4,521,721
2025	3,937,309	584,411	4,521,721
2026	4,036,878	484,843	4,521,721
2027 - 2030	17,189,965	893,134	18,083,099
	$ 36,401,211	$ 4,290,492	$ 40,691,703

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 4% bonus potential and if profit before gain sharing expense accrual and pension expense 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 years ended June 30, 2021 and 2020, the Mill had operating leases for bulk rail and box cars with original terms of 1 to 21 years on 928 and 864 cars, respectively. Contract rental charges per car varied from $450 to $825 per month. The Mill also has an operating lease with GM Financial for the CEO's automobile, BNSF for land and track rental and Wells Fargo and US Bancorp for shuttlewagons. The annual contract expenses for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Bulk rail cars	$ 7,633,410	$ 7,632,160
Automobile	8,123	8,211
Land and Track	37,132	36,050
Shuttlewagons	159,696	103,257
Total operating lease payments	$ 7,838,361	$ 7,779,678

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

Fiscal Year	Future Minimum Lease Payments
2022	6,286,906
2023	4,703,502
2024	3,318,709
2025	1,542,989
2026	460,550
2027-2031	231,450
	$ 16,544,106

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 N.D.C.C. 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. 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 exceed 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 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. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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, 2021 and 2020, the Mill reported a liability of $25,807,034 and $9,880,043, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019 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, 2020 the Mill's proportion was 0.820307 percent, which was a decrease of 0.02265 from its proportion measured as of June 30, 2019. At June 30, 2019, the Mill’s proportion was 0.842955 percent, which was an increase of 0.01095 from its proportion measured as of June 30, 2018.

For the years ended June 30, 2021 and 2020, the Mill recognized a pension expense of $4,686,180 and $1,926,089, respectively. At June 30, 2021 and 2020, the Mill reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 100,432	$ 1,307,667
Changes of assumptions	13,834,199	2,287,135
Net difference between projected and actual earnings on pension plan investments	832,920	
Changes in proportion and differences between employer contributions and proprtionate share of contributions	563,351	328,365
Employer contributions subsequent to the measurement date	811,839	
Total	$ 16,142,741	$ 3,923,167

$811,839 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, 2022.

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,850	$ 1,793,039
Changes of assumptions	3,691,912	3,169,826
Net difference between projected and actual earnings on pension plan investments	172,134	
Changes in proportion and differences between employer contributions and proprtionate share of contributions	834,990	347,292
Employer contributions subsequent to the measurement date	772,196	
Total	$ 5,477,082	$ 5,310,157

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:	
2022	$ 3,365,653
2023	3,000,951
2024	2,423,781
2025	2,617,350
2025	
Thereafter	

Actuarial assumptions. The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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%	6.30%
International Equity	21%	6.85%
Private Equity	7%	9.75%
Domestic Fixed Income	23%	1.25%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.01%
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 7.00%; the municipal bond rate is 2.45%; and the resulting Single Discount Rate is 4.64%.

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, 2020 calculated using the discount rate of 4.64 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 (3.64 percent) or 1-percentage-point higher (5.64 percent) than the current rate:

	1% Decrease (3.64%)	Current Discount Rate (4.64%)	1% Increase (5.64%)
Employer's proportionate share of the net pension liability	$33,482,689	$25,807,034	$19,526,478

The following presents the Mill'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 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employer's proportionate share of the net pension liability	$14,165,854	$9,880,043	$6,279,212

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

At June 30, 2021 and 2020, the Mill reported a liability of $653,232 and $631,127, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020 and 2019 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, 2020, the Mill's proportion was 0.776550 percent which was a decrease of 0.009228 percent from its proportion measures as of June 30, 2019. As June 30, 2019, the Mill's proportion was 0.785778 percent which was an increase of 0.004641 percent from its proportion measures as of June 30, 2018.

For the years ended June 30, 2021 and 2020, the Mill recognized OPEB expense of $113,159 and $101,034, respectively. At June 30, 2021 and 2020, the Mill reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 14,506	$ 15,661
Changes of assumptions	87,586	
Net difference between projected and actual earnings on OPEB plan investments	22,464	
Changes in proportion and differences between employer contributions and proprtionate share of contributions	78,373	
Employer contributions subsequent to the measurement date	122,209	
Total	$ 325,138	$ 15,661

$122,209 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, 2022.

	2020			
	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	15,586	$	19,716
Changes of assumptions		75,219		
Net difference between projected and actual earnings on OPEB plan investments		703		
Changes in proportion and differences between employer contributions and proprtionate share of contributions		83,440		
Employer contributions subsequent to the measurement date		123,089		
Total	$	298,037	$	19,716

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:		
2022	$	40,173
2023		45,979
2024		44,913
2025		37,225
2026		17,229
2027		1,749
Thereafter		

Actuarial assumptions. The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Not applicable
Investment rate of return	6.5%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	6.10%
Small Cap Domestic Equities	6%	7.00%
Domestic Fixed Income	40%	1.15%
International Equities	21%	6.45%

Discount rate. The discount rate used to measure the total OPEB liability was 6.50%. 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, 2020, calculated using the discount rate of 6.50%, 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 (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Employer's proportionate share of the net OPEB liability	$856,729	$653,232	$481,149

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%)
Employer's proportionate share of the net OPEB liability	$805,549	$631,127	$481,821

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 employees deposit to deferred compensation for June 30, 2021 and 2020 was $337,694 and $322,880, respectively.

NOTE 15 | CONCENTRATIONS

The Mill sells a substantial portion of its product to five major customers. Sales to these customers totaled approximately 8,363,716 and 7,768,571 hundredweight for the years ended June 30, 2021 and 2020, respectively. For June 30, 2021 and 2020, sales to these customers were 53% and 54%, respectively.

Approximately 70% of employees are employed under a two-year bargaining agreement that will expire at June 30, 2021. 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 Mill by the employees covered by this agreement and there shall be no lockout by the Mill.

NOTE 16 | RELATED PARTY TRANSACTIONS

For fiscal years 2021 and 2020, section 54-18-19 of the N.D.C.C. provides that the Industrial Commission shall transfer to the state general fund, 50% 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, 2021 and 2020, the Mill had a due to state general fund of $6,393,652 and $5,423,841, respectively.

Section 54-18-21 of the N.D.C.C. 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, 2021 and 2020, the Mill had a due to the Agricultural Products Utilization Fund of $673,016 and $570,930, 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, $47,080 and $47,080 in fiscal years 2021 and 2020, 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 on the next page present the balance of assets and liabilities measured at fair value on a recurring basis at June 30, 2021 and 2020:

	2021			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Liabilities				
Derivative Instrument	$ 497,650	$ 497,650		
Total	$ 497,650	$ 497,650		

	2020			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Liabilities				
Derivative Instrument	$ 735,025	$ 735,025		
Total	$ 735,025	$ 735,025		

The fair values balances and notional amount of derivative instruments outstanding at June 30, 2021 and the changes in fair values of such derivative instruments for the year then ended as reported in the 2021 financial statements are $497,650, classified as Derivative Instruments (one contract equals 5000 bushels) and $497,650, classified as Deferred Outflows of Resources – Accumulated decrease in fair value of hedging derivatives.

The fair values balances and notional amount of derivative instruments outstanding at June 30, 2020 and the changes in fair values of such derivative instruments for the year then ended as reported in the 2020 financial statements are $735,025, classified as Derivative Instrument (one contract equals 5000 bushels) and $735,025, classified as Deferred Inflows of Resources – Accumulated increase in fair value of hedging derivatives.

The fair value of the grain futures contracts was determined on the Minneapolis Grain Exchange. The daily limit for any trade days margin requirement is $.60 per bushel, unless two or more wheat futures contract months within a crop year close at limit bid or limit offer, then the limit 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, 2021 and 2020:

			2021		
Month	# Contracts Long/(Short)	Average Cost	Quoted Prices in Active Mkts	Average Cost	Average Market Value
Sept. 21	(353)	7.7650	8.4975	$(13,684,038)	$ (14,998,088)
Dec. 21	193	7.7137	8.4075	7,391,675	8,113,238
March 22	22	7.8850	8.3300	867,350	916,300
May 22	15	7.6770	8.2475	575,775	618,563
July 22	1	7.5300	8.1500	37,650	40,750
				$ (4,811,588)	$ (5,309,237)

			2020		
Month	# Contracts Long/(Short)	Average Cost	Quoted Prices in Active Mkts	Average Cost	Average Market Value
Sept. 20	275	5.4175	5.2025	$ 7,450,163	$ 7,153,438
Dec. 20	319	5.5250	5.3350	8,816,463	8,509,325
March 21	130	5.6424	5.4700	3,686,663	3,555,500
				$ 19,953,289	$ 19,218,263

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, 2021 and 2020, the tables below show the hedge ratio by futures month going forward:

June 30, 2021	
Period	Hedge Ratio
September 2021	1.0
December 2021	1.1
March 2022	1.0
May 2022	1.0
July 2022	1.2
Net Position	1.0

June 30, 2020	
Period	Hedge Ratio
September 2020	1.0
December 2020	1.1
March 2021	1.0
Net Position	1.1

NOTE 18 | RISK MANAGEMENT

The Mill 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 Mill 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, 2021 and 2020, the Mill had committed to purchase 4,417,779 and 2,723,592 bushels of spring wheat, respectively and 518,161 and 605,896 bushels of durum, respectively.

In addition, at June 30, 2021 and 2020, construction commitments totaled $14,043,623 and $10,492,533, respectively, amounts authorized totaled $36,360,000 and $35,500,000, respectively and amounts expended/construction in progress totaled $22,370,377 and $25,007,467, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer's Share of Net Pension Liability

ND Public Employees Retirement System
Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.820307%	0.842955%	0.832005%	0.749966%	0.836299%	0.867931%	0.817003%
Employer's proportionate share of the net pension liability (asset)	25,807,034	$9,880,043	$14,040,992	$12,054,415	$8,150,549	$5,901,783	$5,185,693
Employer's covered-employee payroll	$9,048,978	$8,768,169	$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	285.19%	112.68%	164.27%	157.45%	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	48.91%	71.66%	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*

	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	$811,839	$772,196	$796,459	$708,182	$642,553	$630,801	$573,685
Contributions in relation to the statutorily required contribution	($811,839)	($772,196)	($796,459)	($708,182)	($642,553)	($630,801)	($573,685)
Contribution deficiency (excess)	$0	$0	$0	$0	$0	$0	$0
Employer's covered-employee payroll	$9,218,872	$9,096,923	$9,007,040	$8,547,332	$7,655,981	$8,427,920	$7,732,208
Contributions as a percentage of covered-employee payroll	8.81%	8.49%	8.84%	8.29%	8.39%	7.48%	7.42%

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

Notes to Required Supplementary Information
For the Year Ended June 30, 2021

Changes of benefit terms.

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (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, 2019.

Changes of assumptions.

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

- The investment return assumption was lowered from 7.5% to 7.0%.
- The assumed rate of price inflation was lowered from 2.5 to 2.25 percent for the July 1, 2020 valuation.
- The assumed rate of total payroll growth was updated for the July 1, 2020 valuation.
- Mortality table updates were made for the July 1, 2020 valuation.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

Schedule of Employer's Share of Net OPEB Liability

ND Public Employees Retirement System
Last 10 Fiscal Years*

	2021	2020	2019	2018
Employer's proportion of the net OPEB liability (asset)	0.776550%	0.785778%	0.781137%	0.707681%
Employer's proportionate share of the net OPEB liability (asset)	653,232	631,127	$615,199	$559,783
Employer's covered-employee payroll	8,852,437	8,768,169	$8,547,332	$7,655,981
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.38%	7.20%	7.20%	7.31%
Plan fiduciary net position as a percentage of the total OPEB liability	63.38%	63.13%	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*

	2021	2020	2019	2018
Statutorily required contribution	$122,209	$123,089	$127,521	$113,390
Contributions in relation to the statutorily required contribution	($122,209)	($123,089)	($127,521)	($113,390)
Contribution deficiency (excess)	$0	$0	$0	$0
Employer's covered-employee payroll	$9,218,872	$9,096,923	$9,007,040	$8,547,332
Contributions as a percentage of covered-employee payroll	1.33%	1.35%	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, 2021

Changes of benefit terms.

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, 2019.

Changes of assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2020 valuation:

- The investment return assumption was lowered from 7.25% to 6.50%.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

SUPPLEMENTARY INFORMATION

Schedule of Appropriations

For the Biennium Ended June 30, 2021

OBJECT	2019-2021 Final Appropriation	2020 Expenses/ Transfers	2021 Expenses/ Transfers	Balance June 30, 2021
Salaries and wages	$ 46,480,155	$ 18,658,799	$ 20,201,016	$ 7,620,340
Operating expenses	29,921,358	11,925,113	12,487,310	5,508,935
Agriculture promotion	210,000	50,739	21,205	138,056
Contingency	500,000			500,000
TOTAL	$ 77,111,513	$ 30,634,651	$ 32,709,531	$ 13,767,331
SOURCE				
Federal fund authority	$ 116,689	$ 48,138	$ 68,551	$ -
Special fund authority	76,994,824	30,586,513	32,640,980	13,767,331
TOTAL	$ 77,111,513	$ 30,634,651	$ 32,709,531	$ 13,767,331

2019-2021 Appropriation amounts come directly from the North Dakota Session Laws, Chapter 14, House 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:

	2020	2021
Total operating expenses	$ 219,420,778	253,462,246
Adjustments:		
Material cost	(182,080,121)	(210,828,503)
Depreciation	(5,764,291)	(6,236,827)
Change in compensated absences	(68,015)	39,548
Change in pension expense	(1,153,893)	(3,874,341)
Change in OPEB expense	22,055	9,050
Demurrage	207,399	117,153
Agriculture promotion	50,739	21,205
Expenses per schedule of appropriations	$ 30,634,651	$ 32,709,531

STATE AUDITOR
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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, 2021, 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 22, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 North Dakota 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
North Dakota State Auditor

Bismarck, North Dakota

October 22, 2021

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

7. IDENTIFY ANY SIGNIFICANT CHANGES IN ACCOUNTING POLICIES, ANY MANAGEMENT CONFLICTS OF INTEREST, ANY CONTINGENT LIABILITIES, OR ANY SIGNIFICANT UNUSUAL TRANSACTIONS.

None noted.

8. 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 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.

9. IDENTIFY ANY SIGNIFICANT AUDIT ADJUSTMENTS.

There were no significant audit adjustments.

10. 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.

11. IDENTIFY ANY SERIOUS DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT.

None.

12. IDENTIFY ANY MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION.

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

13. IDENTIFY ANY MANAGEMENT CONSULTATIONS WITH OTHER ACCOUNTANTS ABOUT AUDITING AND ACCOUNTING MATTERS.

None.

14. 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. No exceptions were noted regarding these high-risk information technology systems.

STATE AUDITOR
Joshua C. Gallion

Phone (701)239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
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Governance Communication

October 22, 2021

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, 2021 and 2020, and have issued our report thereon dated October 22, 2021. 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 7, 2021. 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. The schedule below shows the uncorrected likely misstatement to the financial statements. Management has determined that its effect is immaterial to the financial statements taken as a whole.

Audit Adjustment

Account Description	Debit	Credit	Explanation
Statement of Revenues, Expenses, and Changes in Net Position			
Safety expense	$ 473,424		To project a likely misstatement for Coronavirus
Wages and benefits	73,459		Relief Funds from safety expense and wage and
Miscellaneous income		$ 546,883	benefits to miscellaneous income.

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 22, 2021.

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,

Robyn Hoffmann

Robyn Hoffmann, CPA
Audit Manager

Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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