



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

North Dakota Dairy Promotion Commission

Audit Report for the Two-Year Period Ended June 30, 2022

Client Code 603



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Independent Auditor's Report

Members of the Legislative Assembly

Members of the North Dakota Dairy Promotion Commission

Sue Kleingartner, Chairman, North Dakota Dairy Promotion Commission

Report on the Audit of the Financial Statement

Opinion

We have audited the accompanying Comparative Statement of Revenues and Expenditures of the North Dakota Dairy Promotion Commission Fund, for the two years ended June 30, 2022, and the related notes to the financial statement, as listed in the table of contents.

In our opinion, the accompanying financial statement referred to above present fairly, in all material respects, the revenues and expenditures for the North Dakota Dairy Promotion Commission Fund, for the two-year period ended June 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the [Client] and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Emphasis of Matter

As discussed in Note 1, the financial statement presents only the North Dakota Dairy Promotion Commission Fund's revenues and expenditures, and does not purport to, and does not present fairly the financial position of the state of North Dakota as of June 30, 2022 and 2021, for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statement is presented and audited in accordance with North Dakota Century Code 4.1-44-04. This financial statement is not intended to be a complete presentation of the North Dakota Dairy Promotion Commission Fund's assets and liabilities. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statement

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

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Dairy Promotion Commission's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by the Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2022 on our consideration of the North Dakota Dairy Promotion Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the North Dakota Dairy Promotion Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Dairy Promotion Commission's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor
Bismarck, North Dakota
November 3, 2022

Comparative Statement of Revenues and Expenditures

Ended June 30, 2022 and 2021

Revenues:

	<u>6/30/2022</u>	<u>6/30/2021</u>
Assessments	320,723	327,830
Interest on Investments	471	815
Program Income	25	25
Total Revenue	<u>321,219</u>	<u>328,670</u>

Expenditures

Professional Fees and Services	322,500	318,500
Data Processing	32	32
Total Expenses	<u>322,532</u>	<u>318,532</u>

Revenue Over/(Under) Expenditures	<u>(1,313)</u>	<u>10,138</u>
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Notes to the Financial Statement

NOTE 1 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

The North Dakota Dairy Promotion Commission was established by North Dakota Century Code (NDCC), chapter 4.1-05, and is responsible for the funding of research, education programs, and market development efforts, to promote the increased sale and consumption of dairy products, as well as participation in programs under the auspices of state, regional, national, and international dairy promotion groups. In addition, the Commission is to provide for the safekeeping of records, inspection thereof, and penalties for violation of unpaid assessment fees. The Commission receives its funding through an assessment of ten cents per hundredweight of all milk or some product there from produced in the state of North Dakota. The Commission operates on a continuing appropriation and received no funding from the State Legislature.

B. REPORTING STRUCTURE

The financial statement includes all activities of the reporting entity as defined above. These activities are funded from North Dakota Dairy Promotion Commission Fund. The comparative statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. BASIS OF PRESENTATION

North Dakota Century Code 4.1-44-04 requires certain commodity promotion groups to prepare a report for the legislative assembly. As part of this report the applicable commodity groups are required to prepare a single-page uniform statement of revenues and expenditures.

Revenues and expenditures on the comparative statement of revenues and expenditures are reported on the modified accrual basis of accounting which is generally accepted accounting principles (GAAP) for governmental fund types.

Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e. measurable and available). Measurable means the amount can be determined, available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if they are collected within a year after fiscal year end. Expenditures are recorded when goods or services are received. Exceptions include: principal and interest expenditures which are recorded when due and compensated absences which are recorded when paid.

D. GAAP REPORTING DIFFERENCES

GAAP financial statements would include a balance sheet. GAAP financial statements would also provide additional note disclosures.

NOTE 2 | RELATED PARTIES

The North Dakota Dairy Promotion Commission contracts with the Midwest Dairy Association, a related organization through similar control and management, to implement and administer programs intended to contribute to the betterment of North Dakota's dairy farmers and the state's dairy industry. For fiscal years 2022 and 2021, the Council paid the Association \$635,000 for the two-year period ended June, 30, 2022.

NOTE 3 | OTHER SIGNIFICANT ITEMS

Council has cash and investment reserves of \$189,189 and \$190,599 at June 30, 2022 and June 30, 2021. Based on the average monthly expenditures for fiscal year 2022 and 2021, this amount represents approximately 7.18 and 7.04 months, respectively.

In addition to the cash and investment reserves noted above, the Commission has an investment in the Midwest Dairy Association (formerly American Dairy Association/Dairy Council of the Upper Midwest). Under the terms of a Dairy Research and Promotion Agreement dated July 1, 1993, the Commission provided capital of \$155,170 in the form of cash and equipment to the Midwest Dairy Association. This investment, along with investments made by the American Dairy Association of South Dakota and Minnesota Dairy Research and Promotion Council, enabled the Midwest Dairy Association to commence operations and provided working capital for the activities of coordinating and implementing dairy promotion, research, and education programs on behalf of dairy producers in North Dakota, Minnesota, and South Dakota.

In the event the Dairy Research and Promotion Agreement between the Commission and the Midwest Dairy Association is terminated, the Commission may receive a refund of its contributed capital. Upon termination, the Midwest Dairy Association has the right to determine the appropriate disposition of the Commission's capital contribution. However, until the capital is

refunded in full, and as long as the Midwest Dairy Association exists, the Commission's contribution shall be considered an investment.



**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

Members of the North Dakota Dairy Promotion Commission

Sue Kleingartner, Chairman North Dakota Dairy Promotion Commission

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Comparative Statement of Revenues and Expenditures of the [Client], for the two-year period ended June 30, 2022, and the related notes to the financial statement and have issued our report thereon dated November 3, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered North Dakota Dairy Promotion Commission'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 opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Dairy Promotion Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Dairy Promotion Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Dairy Promotion Commission's financial statement is free of 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 financial statement. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/S/

Joshua C. Gallion
State Auditor
Bismarck, ND
November 3, 2022



Governance Communication

November 3, 2022

The North Dakota Dairy Promotion Commission

Legislative Audit and Fiscal Review Committee

We have audited the Comparative Statement of Revenues and Expenditures for the Dairy Promotion Commission fund of the North Dakota Dairy Promotion Commission for the two-year period ended June 30, 2022 and have issued our report thereon dated November 3, 2022. 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 August 29, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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 Dairy Promotion Commission are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the two-year period. We noted no transactions entered into by the North Dakota Dairy Promotion Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

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. No such misstatements were identified as a result of the audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 3, 2022.

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 [Client]'s financial statement or a determination of the type of auditor's opinion that may be expressed on that statement, 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 [Client]'s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the [Client], management of the [Client], and the Legislative Audit and Fiscal Review Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Lindsey Slappy, CPA
Audit Manager



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION


NORTH DAKOTA STATE AUDITOR'S OFFICE


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