NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

North Dakota Mill and Elevator Association

Audit Report for the Fiscal Year Ended June 30, 2022

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

TABLE OF CONTENTS

STATE AUDITOR
Joshua C. Gallion

Office of the State Auditor

PHONE
(701) 239-7250

FAX
(701) 328-2345

NORTH DAKOTA OFFICE OF THE STATE AUDITOR

Fargo Office
1655 S. 43rd St., Ste. 203
Fargo, ND 58103

www.nd/gov/auditor

ndsao@nd.gov

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 Audit of the Financial Statements

Opinion

We have audited 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, 2022, 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.

In our opinion, the accompanying 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, 2022, and the respective changes in financial position, and cash flows thereof for the year then ended 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 the 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 Statements section of our report. We are required to be independent of the North Dakota Mill and Elevator Association 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 Matters

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 North Dakota Mill and Elevator that is attributable to the transactions of the North Dakota 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, 2022, the changes in its financial position, or its cash flows for the year 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.

Also as discussed in Note 1, the North Dakota Mill and Elevator Association adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements 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 statements that is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota Mill and Elevator Association's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 statements, 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 statements.
- 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 Mill and Elevator Association'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 statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Dakota Mill and Elevator Association's ability to continue as a going concern for a reasonable period of time.

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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the 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 of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively compare 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. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the 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 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 28, 2022 on our consideration of the North Dakota Mill and Elevator Association's internal control over financial reporting and on our tests of 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 Mill and Elevator Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Mill and Elevator Association's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor
Bismarck, North Dakota
October 28, 2022

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, 2022. Please read this information in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Condensed Financial Data

	FY 2022	FY 2021
Current Assets	$ 142,549,577	$ 85,572,875
Noncurrent Assets	934,959	821,191
Capital Assets	158,945,834	127,583,562
Total Assets	$ 302,430,370	$ 213,977,628
Deferred Outflow of Resources	$ 16,830,966	$ 16,965,528
Current Liabilities	$ 131,851,550	$ 56,750,590
Noncurrent Liabilities	53,962,626	60,325,694
Total Liabilities	$ 185,814,176	$ 117,076,284
Deferred Inflow of Resources	$ 16,547,166	$ 3,938,828
Invested in Capital Assets	$ 136,668,904	$ 127,583,562
Unrestricted	(19,768,910)	(17,655,518)
Total Net Position	$ 116,899,994	$ 109,928,044
Operating Revenue		
Gross Sales	$ 473,013,523	$ 339,161,011
Sales Deductions	(80,550,375)	(71,335,777)
Net Sales	$ 392,463,148	$ 267,825,234
Nonoperating Revenue		
Interest Income	3,298	4,431
Miscellaneous	154,340	361,366
Total Revenues	$ 392,620,786	$ 268,191,031
Operating Expenses		
Material Cost	$ 333,147,294	$ 210,828,503
Manufacturing, Selling, General	42,922,097	42,633,744
Nonoperating Expenses		
Interest Expense	1,842,941	1,247,260
Other	30,665	21,205
Total Expenses	$ 377,942,997	$ 254,730,712
Revenue Over Expenses	$ 14,677,789	$ 13,460,320
Transfer to Industrial Commission	0	(47,080)
Transfer to General Fund	(6,971,950)	(6,393,652)
Transfer to Ag Fuel Tax Fund	(733,889)	(673,016)
Change in Net Position	6,971,950	6,346,572
Beginning Net Position as restated	109,928,044	103,581,472
Ending Net Position	$ 116,899,994	$ 109,928,044

- Gross sales reached $473,013,000.
- During the fiscal year, the Mill shipped 15,607,000 hundredweight of flour.
- The mill made a profit of $14,678,000.
- Mill operations provided more than $366,421,000 to the region and another $850,097,000 in secondary economic activity for a total economic impact of more than $1,216,518,000.

RESULTS OF OPERATIONS

Certain operating information is set forth below, as a percentage of gross sales for the fiscal years ended June 30, 2022 and June 30, 2021:

	FY 2022	FY 2021
Gross Margin	12.5%	16.8%
Material Costs	70.4%	62.6%
Operating Costs	9.1%	12.6%
Profits	3.1%	4.0%

Gross sales reached $473,013,000 for the fiscal year compared to $339,161,000 last year. Sales of spring wheat flour were 14,362,000 hundredweight or 92 percent of our total sales while sales of durum products were 1,245,000 hundredweight. This compares to sales of 14,511,000 hundredweight of spring wheat flour and 1,274,000 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 increased sales volume, the Mill spent more than $319,708,000 buying wheat and durum. This is up from the previous year purchases of $205,702,000. This increase in fiscal year 2022 is due primarily to a increase of $4.20 in average price paid per bushel for grain purchased by the Mill during the year. In fiscal year 2022 the mill settled the purchase of 31,459,000 bushels of wheat and durum while in fiscal year 2021 the mill settled the purchase of 33,768,000 bushels. The majority of the grain purchased is from North Dakota growers or grain elevators.

In addition to spending over $319,708,000 on grain, most of which went to North Dakota farmers, the Mill also spent $25,214,000 with other North Dakota based suppliers. Payroll costs for the North Dakota Mill were $21,499,000 for the year ended June 30, 2022. These three items when added together show that the Mill provided a direct economic impact to the region of over $366,421,000. 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 $850,097,000 in secondary economic activity resulting in a total economic impact of more than $1,216,518,000.

Operating costs were $42,922,000 compared to $42,634,000 last year. This is an increase of $288,000 from last year. The primary causes for this increase in operating cost is due to the increase in utilities and increased insurance costs. Operating cost per hundredweight of production increased to 2.73 from 2.71 in fiscal year 2021.

Gross margins as a percent of gross sales decreased to 12.5 percent from 16.8 percent in fiscal year 2021. Profits as a percent of gross sales decreased to 3.1 percent compared to 4.0 percent last year. The Mill experienced a profit of $14,678,000 compared to a profit of $13,460,000 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 $100,000,000 operating line of credit with the Bank of North Dakota.

CASH FLOWS FROM OPERATIONS

Operating activities for the year ended June 30, 2022 used cash of $7,922,000 compared to providing $17,762,000 in fiscal year 2021. Cash was used primarily for capital projects at the mill and transfer to APUF and the General Fund. There was an operating profit for this same period of $16,394,000 compared to $14,363,000 in fiscal year 2021.

CASH FLOWS FROM FINANCING ACTIVITIES

The North Dakota Mill had $69,000,000 of short-term debt outstanding and payable to the Bank of North Dakota on June 30, 2022 compared to $26,000,000 last year. The Mill also had $32,748,000 in long term debt outstanding and payable to the Bank of North Dakota on June 30, 2022 compared to $36,401,000 in fiscal year 2021.

NET POSITION

Current assets increased $56,977,000 from last year. This increase from last year is due primarily to increases in accounts receivable and inventories. Accounts receivables increased $47,810,000 while inventories rose $9,930,000 from last year's values.

The carrying value of capital assets increased $31,362,000 to $158,946,000 for the year ended June 30, 2022. The North Dakota Mill is in the process of completing a 20% flour milling capacity expansion project. In addition, the mill implemented GASB Statement no 87, Leases. For more detailed information regarding capital assets and long-term debt activity see the Notes to the Financial Statements.

Current liabilities increased $75,102,000 from last year. The major change occurred in notes payable which increased $43,000,000 and grain payable which increased $20,447,000. The notes payable is to the Bank of North Dakota. Long term liabilities decreased $6,364,000 from last year. The total net position increased by $6,972,000, 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 decreased in 2021 to 421 million hundredweights down 1.1% from 2020. Production of whole wheat flour in the U.S. was estimated at 19.96 million hundredweights which is a .08% decrease from 2020. Durum flour and semolina production was 30.2 million hundredweights, down 11.0% from 2020. 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 14.3%. 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

Statement of Net Position

ASSETS		June 30, 2022
Current assets:		
Cash and cash equivalents	$	316,384
Receivables, net (note 4)		100,614,091
Inventories (note 5)		39,864,086
Prepaid expense		1,755,016
Total current assets	$	142,549,577
Noncurrent assets:		
Patronage capital credits	$	659,959
Other assets		275,000
Capital assets, net (note 6)		158,945,834
Total noncurrent assets		159,880,793
Total assets	$	302,430,370
DEFERRED OUTFLOW OF RESOURCES		
Accumulated decrease in fair value of hedging derivative instruments	$	5,747,088
Derived from pensions		10,794,194
Derived from other post-employment benefits		289,684
Total deferred outflows of resources	$	16,830,966
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities (note 7)	$	38,294,751
Due to state general fund		6,971,950
Due to ag products utilization fund		733,889
Hedging derivative instruments		5,747,088
Short term notes payable		69,000,000
Long-term liabilities - current portion		
Compensated absences		95,369
Notes payable		3,745,527
Lease Liability		7,262,977
Total current liabilities	$	131,851,551
Noncurrent liabilities:		
Net other post-employment benefit liability	$	427,768
Net pension liability		8,474,445
Long-term liabilities - noncurrent portion		
Compensated absences		1,044,049
Notes payable		29,002,410
Lease Liability		15,013,953
Total noncurrent liabilities		53,962,625
Total liabilities	$	185,814,176
DEFERRED INFLOWS OF RESOURCES		
Derived from pensions	$	16,388,877
Derived from other post-employment benefits		158,289
Total deferred inflows of resources	$	16,547,166
NET POSITION		
Invested in capital assets	$	136,668,905
Unrestricted		(19,768,911)
Total net position	$	116,899,994

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

Statement of Revenues, Expenses, and Changes in Net Position

OPERATING REVENUES		June 30, 2022
Sales (net of sales deductions of $80,550,372)	$	392,463,149
Total operating revenues	$	392,463,149
OPERATING EXPENSES		
Material cost	$	333,147,292
Wages and benefits		21,980,915
Repairs and maintenance		2,672,582
Operating supplies		1,822,172
Utilities		4,761,065
Insurance		1,996,251
Outside services		1,692,830
Office supplies		125,107
Computer expense		291,000
Communications		63,344
Travel and entertainment		215,536
Employee expense		189,767
Safety expense		258,633
Postage and mailing		27,491
Advertising		140,018
Dues and subscriptions		199,430
Legal and professional		39,396
Depreciation		6,446,563
Total operating expenses	$	376,069,392
Operating income	$	16,393,757
NONOPERATING REVENUES (EXPENSES)		
Interest income	$	3,298
Interest expense		(1,842,941)
Disposal of assets		(60,479)
Miscellaneous income		214,819
Other expense		(30,665)
Total nonoperating expenses	$	(1,715,968)
Gain before transfers	$	14,677,789
Transfer to state general fund	$	(6,971,950)
Transfer to ag products utilization fund		(733,889)
Change in net position	$	6,971,950
Total net position - beginning of year	$	109,928,044
Total net position - ending	$	116,899,994

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

Statement of Cash Flows

		June 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$	425,418,084
Payments to suppliers		(411,798,619)
Payments to employees		(21,541,515)
Net cash provided by operating activities	$	(7,922,050)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from noncapital debt	$	65,000,000
Principal paid on noncapital debt		(25,653,273)
Interest paid on noncapital debt		(1,842,941)
Ag promotion		(30,665)
Transfer to state general fund		(6,393,652)
Transfer to ag products utilization fund		(673,016)
Net cash used by noncapital financing activities	$	30,406,453
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on lease activities	$	(7,911,957)
Interest paid on Lease activities		(393,674)
Acquisition and construction of capital assets		(15,720,219)
Net cash used by capital and related financing activities	$	(24,025,850)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income on investments	$	3,298
Net cash provided by investing activities	$	3,298
Net increase in cash and cash equivalents	$	(1,538,149)
Cash and cash equivalents, beginning		1,854,533
Cash and cash equivalents, ending	$	316,384
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	$	16,393,757
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		14,486,355
Pension and OPEB expense		1,476,009
Interest expense paid on lease activities		393,674
Other nonoperating income		214,814
Increase in receivables, net		(47,810,255)
Increase in inventories		(9,930,072)
Increase in prepaid expense		(774,523)
Increase in patronage capital credits		(113,768)
Increase in accounts payable		18,822,058
Increase in accrued payroll		85,919
Decrease in other liabilities		(43,491)
Decrease in compensated absences		(80,805)
Increase in deferred outflows for pension and OPEB		(1,041,722)
Total adjustments	$	(24,315,807)
Net cash provided by operating activities	$	(7,922,050)
SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS		
Assets acquired through lease	$	30,189,019
Total non cash transactions	$	30,189,019

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 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 Statement of Net Position and the 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 hedging derivative instruments 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. The leased right of use assets are amortized on a straight-line basis over the shorter of lease term or the assets useful life.

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. LEASES

Leased right of use assets and the corresponding lease liability are recorded at the present value of future payments over the shorter of the lease term or the assets useful life. The future lease payments are discounted using the implicit rate identified in the lease, or if not identified, then the Mill’s incremental borrowing rate is used. The leased right of use assets are amortized on a straight-line basis.

J. 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.

K. SCALE ACCRUED PURCHASES

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

L. 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.

M. 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.

N. 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.

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

O. REVENUE AND EXPENSE RECOGNITION

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

P. NEW ACCOUNTING PRONOUNCEMENTS

During fiscal year 2022, the Mill adopted GASB Statement No. 87, *Leases*, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and GASB Statement No. 92, *Omnibus 2020*.

The Mill will implement the following new pronouncements for fiscal years ending after 2022: GASB Statement No. 91, *Conduit Debt Obligations*, GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, GASB Statement No. 99, *Omnibus 2022*, GASB Statement No. 100, *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62*, and GASB Statement No. 101, *Compensated Absences*. 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, 2022, the carrying amount of the Mill's deposits was $316,384 and the bank balance was $1,398,017. 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, 2022 consist of the following:

June 30, 2022	Gross Receivables	Allowance: Bad Debts	Allowance: Billbacks/ Promotional	Net Receivables
Current Receivables				
Accounts	$ 97,234,190	$ (3,456,072)	$ (433,296)	$ 93,344,822
Margin accounts	7,131,519			7,131,519
Other	137,750			137,750
Total Current Receivables	$ 104,503,459	$ (3,456,072)	$ (433,296)	$ 100,614,091

At June 30, 2022, the ages of gross accounts receivable were as follows:

	2022
Current	$ 50,771,488
1-30 Days	29,016,470
31-60 Days	11,697,905
61-90 Days	2,843,923
Over 90 Days	2,904,404
	$ 97,234,190

NOTE 5 | INVENTORIES

At June 30, 2022, inventories consisted of the following:

	2022
Grain	$ 27,266,713
Flour, Feed, Resale	11,732,993
Supplies	864,380
Total Inventories	$ 39,864,086

The Mill's net position in the grain market at June 30, 2022 was as follows:

	2022 Bushels: Wheat	2022 Bushels: Durum
Company Owned (Priced) Grain and Flour on Hand	1,783,585	358,905
Open Purchase Contracts		
Cash	5,507,731	784,946
Futures	4,790,000	
Subtotal	12,081,316	1,143,851
Committed to Production	(12,424,198)	(889,731)
Net Position (Short) Long	(342,882)	254,120

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

The summary of changes in capital assets for fiscal year ended June 30, 2022 is below:

	Balance July 1, 2021	Additions	Deletions	Transfers	Balance June 30, 2022
Capital Assets, Non-Depreciable:					
Land	$ 1,783,611				$ 1,783,611
Construction in Progress	22,370,377	$ 15,720,218		$ (11,948,832)	26,141,763
Total Capital Assets, Non-Depreciable	$ 24,153,988	$ 15,720,218		$(11,948,832)	$ 27,925,374
Capital Assets, Depreciable:					
Infrastructure	$ 17,788,029			$ 103,770	$ 17,891,799
Buildings	72,276,573		$ (261,118)	172,570	72,188,025
Machinery & Equipment	91,620,753		(1,068,810)	11,573,248	102,125,191
Intangibles	1,794,849			99,244	1,894,093
Furniture & Fixtures	1,017,392				1,017,392
Leased Right of Use Asset		30,189,019	(636,419)		29,552,600
Total Capital Assets, Depreciable	$ 184,497,596	$ 30,189,019	$(1,966,347)	$ 11,948,832	$ 224,669,100
Less Accumulated Depreciation:					
Infrastructure	$ 2,803,425	$ 597,469			$ 3,400,894
Buildings	19,554,622	1,844,779	$ (205,064)		21,194,337
Machinery & Equipment	56,966,480	3,749,011	(1,063,752)		59,651,739
Intangibles	1,059,104	157,304			1,216,408
Furniture & Fixtures	684,391	97,366			781,757
Leased Right of Use Asset		8,039,924	(636,419)		7,403,505
Total Accumulated Depreciation	$ 81,068,022	$ 14,485,853	$ (1,905,235)		$ 93,648,640
Total Capital Assets, Depreciable, Net	$ 103,429,575	$ 15,703,166	$ (61,112)	$ 11,948,832	$ 131,020,460
Capital Assets, Net	$ 127,583,563	$ 31,423,384	$ (61,112)	$ -	$ 158,945,835

NOTE 7 | ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2022 were as follows:

	2022
Accounts Payable	$ 16,493,851
Scale Accrued Purchases	17,665,878
Accrued Gain Sharing	3,314,540
Accrued Payroll	747,649
Accrued Payroll Taxes and Benefits	31,969
Accrued Commissions	40,863
Total accounts payable and accrued liabilities	$ 38,294,750

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 $100 million and as of June 30, 2022, $31 million 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 10. The interest rate is variable at 1.0% over the 3-month FHLB (Federal Home Loan Bank), adjusted quarterly. As of June 30, 2022, the rate was 1.89%. Short-term debt activity for the year ended June 30, 2022 was as follows:

	Balance July 1, 2021	Draws	Repayments	Balance June 30, 2022
Line of credit	$ 26,000,000	$ 65,000,000	$ (22,000,000)	$ 69,000,000

NOTE 9 | LONG-TERM LIABILITIES

The summary of changes in the long-term liabilities for June 30, 2022 is as follows:

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022	Current Portion	Noncurrent Portion
Compensated Absences	$ 1,220,224	$ 958,952	$ (1,039,758)	$ 1,139,418	$ 95,369	$ 1,044,049
Notes Payable	36,401,211		(3,653,273)	32,747,937	3,745,527	29,002,410
Lease Liability		30,189,019	(7,912,089)	22,276,930	7,262,977	15,013,953
Total Long-Term Liabilities	$ 37,621,435	$ 31,147,971	$ (12,605,121)	$ 56,164,285	$ 11,103,873	$ 45,060,412

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.

NOTE 10 | NOTES PAYABLE

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. The schedule of maturities of notes payable is as follows:

Fiscal Year	Principal	Interest	Total
2023	$ 3,745,527	$ 776,193	$ 4,521,721
2024	3,838,396	683,324	4,521,721
2025	3,937,313	584,408	4,521,721
2026	4,036,881	484,839	4,521,721
2027	4,138,968	382,753	4,521,721
2028 - 2032	13,050,852	510,365	13,561,218
	$ 32,747,937	$ 3,421,884	$ 36,169,822

NOTE 11 | LEASE OBLIGATIONS

During the fiscal year ended June 30, 2022, the Mill had leases for bulk rail and box cars with original terms of 1 to 21 years on 991 cars. The Mill also has leases with GM Financial for the CEO's automobile, BNSF for land and track rental, CSX for track rental, US Bancorp for two shuttlewagons, and Pitney Bowes for a postage meter. A summary of changes in leased assets for fiscal year ended June 30, 2022 is as follows:

	Balance July 1, 2021	Additions	Decreases	Balance June 30, 2022
Capital Assets:				
Leased Land	$ -	$ 104,472	$ -	$ 104,472
Leased Infrastructure		82,367		82,367
Leased Machinery & Equipment		29,996,292	636,419	29,359,874
Leased Furniture & Fixtures		5,888		5,888
Total Leases Being Amortized	$ -	$ 30,189,019	$ 636,419	$ 29,552,601
Less Accumulated Amortization:				
Leased Land	$ -	$ -	$ -	$ -
Leased Infrastructure		22,641		22,641
Leased Machinery & Equipment		8,015,600	636,419	7,379,181
Leased Furniture & Fixtures		1,682	-	1,682
Total Accumulated Amortization	$ -	$ 8,039,924	$ 636,419	$ 7,403,505
Leased Right of Use Asset, Net	$ -	$ 22,149,096	$ -	$ 22,149,096

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

Fiscal Year	Principal	Interest	Total
2023	7,262,977	336,777	7,599,754
2024	5,991,857	218,880	6,210,737
2025	4,083,160	127,951	4,211,111
2026	2,501,976	67,805	2,569,781
2027	1,136,088	33,862	1,169,950
2028-2032	1,300,872	23,083	1,323,955
	$ 22,276,930	$ 808,358	$ 23,085,288

NOTE 12 | 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 13 | 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, 2022, the Mill reported a liability of $8,474,445 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 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, 2021, the Mill's proportion was 0.813052 percent, which was a decrease of 0.007255 from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the Mill recognized a pension expense of $1,398,417. At June 30, 2022, the Mill reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 146,310	$ 864,933
Changes of assumptions	9,379,565	12,228,993
Net difference between projected and actual earnings on pension plan investments		3,143,038
Changes in proportion and differences between employer contributions and proprtionate share of contributions	351,570	151,913
Employer contributions subsequent to the measurement date	916,749	
Total	$ 10,794,194	$ 16,388,877

$916,749 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, 2023.

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:	
2023	$ (834,398)
2024	(1,406,812)
2025	(1,215,855)
2026	(3,054,367)
2027	
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%	6.70%
Private Equity	7%	9.50%
Domestic Fixed Income	23%	0.73%
International Fixed Income	0%	0.00%
Global Real Assets	19%	4.77%
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 1.92%; and the resulting Single Discount Rate is 7.00%.

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 calculated using the discount rate of 7.00 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Employer's proportionate share of the net pension liability	$13,477,216	$8,474,445	$4,308,852

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 14 | 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, 2022, the Mill reported a liability of $427,768 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021 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, 2021, the Mill's proportion was 0.769127 percent which was a decrease of 0.007423 percent from its proportion measures as of June 30, 2020.

For the year ended June 30, 2022, the Mill recognized OPEB expense of $77,592. At June 30, 2022, the Mill reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 24,565	$ 11,725
Changes of assumptions	66,245	
Net difference between projected and actual earnings on OPEB plan investments		146,564
Changes in proportion and differences between employer contributions and proprtionate share of contributions	73,901	
Employer contributions subsequent to the measurement date	124,973	
Total	$ 289,684	$ 158,289

$124,973 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, 2023.

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:	
2023	$ 10,282
2024	9,227
2025	1,601
2026	(18,282)
2027	3,594
2028	
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, 2021 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 rates described in this report. 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 fun the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected o be sufficient to make all projected future 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, 2021, 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	$634,435	$427,768	$252,897

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 15 | 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, 2022 was $349,865.

NOTE 16 | CONCENTRATIONS

The Mill sells a substantial portion of its product to five major customers. Sales to these customers totaled approximately 8,599,348 hundredweight for the year ended June 30, 2022. For June 30, 2022, sales to these customers were 55% of total sales.

Approximately 70% of employees are employed under a four-year bargaining agreement that will expire at June 30, 2025. 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 17 | RELATED PARTY TRANSACTIONS

For fiscal year 2022, 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, 2022, the Mill had a due to state general fund of $6,971,950.

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 year ended June 30, 2022, the Mill had a due to the Agricultural Products Utilization Fund of $733,889.

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 10.

NOTE 18 | HEDGING DERIVATIVE INSTRUMENTS

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.

Hedging 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 table the next page presents the balance of assets and liabilities measured at fair value on a recurring basis at June 30, 2022:

		Total		Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Liabilities						
Hedging Derivative Instruments	$	5,747,088	$	5,747,088		
Total	$	5,747,088	$	5,747,088		

The fair values balances and notional amount of hedging derivative instruments outstanding at June 30, 2022 and the changes in fair values of such hedging derivative instruments for the year then ended as reported in the 2022 financial statements are $5,747,088, classified as Hedging Derivative Instruments (one contract equals 5000 bushels) and $5,747,088, classified as Deferred Outflows of Resources – Accumulated decrease in fair value of hedging derivative instruments.

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 will increase by 50% per bushel the next business day. Daily price limits will revert back to $.60 per bushel the business day after which no wheat futures contract month closes at the expanded limit bid or limit offer.

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 table below shows the cost and market values of these spring wheat futures at June 30, 2022:

Month	# Contracts Long/(Short)	Average Cost	Quoted Prices in Active Mkts		Cost		Market Value
Sept. 22	31	10.7337	9.9000	$	1,676,600	$	1,534,500
Dec. 22	737	11.4551	10.0325		42,141,225		36,969,763
March 23	121	10.8364	10.1725		6,482,500		6,154,363
May 23	69	10.5530	10.2475		3,640,775		3,535,388
				$	53,941,100	$	48,194,014

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, 2022, the table below shows the hedge ratio by futures month going forward:

June 30, 2022	
Period	Hedge Ratio
September 2022	1.0
December 2022	1.0
March 2023	1.0
May 2023	0.9
Net Position	1.0

NOTE 19 | 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 statutory liability of the state is limited to a total of $350,000 per person and $1,000,000 per occurrence.

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 20 | COMMITMENTS AND CONTINGENCIES

At June 30, 2022, the Mill had committed to purchase 5,507,731 bushels of spring wheat and 784,946 bushels of durum.

In addition, at June 30, 2022, construction commitments totaled $49,523,236, amounts authorized totaled $63,390,000, and amounts expended/construction in progress totaled $26,141,764.

NOTE 21 | SUBSEQUENT EVENTS

On August 29, 2022, the Mill entered into a $40 million long term note with the Bank of North Dakota to fund the construction of a Midds Storage and Handling Facility. The note has a fixed 3.0% interest rate, 5-year term, requiring interest only monthly payments for the first 2 years, followed by 3 years of monthly principal and interest payments based on a 10-year amortization. The Mill is constructing a Midds Storage and Handling Facility with an estimated final cost of $45 million, $40 million will be covered by this term note with the remaining $5 million to be covered by Mill profits.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer's Share of Net Pension Liability

ND Public Employees Retirement System
Last 10 Fiscal Years*

	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered-employee payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2022	0.813052%	$8,474,445	$9,206,923	92.04%	78.26%
2021	0.820307%	$25,807,034	$9,048,978	285.19%	48.91%
2020	0.842955%	$9,880,043	$8,768,169	112.68%	71.66%
2019	0.832005%	$14,040,992	$8,547,332	164.27%	62.80%
2018	0.749966%	$12,054,415	$7,655,981	157.45%	61.98%
2017	0.836299%	$8,150,549	$8,427,920	96.71%	70.45%
2016	0.867931%	$5,901,783	$7,732,208	76.33%	77.15%
2015	0.817003%	$5,185,693	$6,882,262	75.35%	77.70%

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

Schedule of Employer Contributions

ND Public Employees Retirement System
Last 10 Fiscal Years*

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2022	$916,749	($916,749)	$0	$9,853,622	9.30%
2021	$811,839	($811,839)	$0	$9,218,872	8.81%
2020	$772,196	($772,196)	$0	$9,096,923	8.49%
2019	$796,459	($796,459)	$0	$9,007,040	8.84%
2018	$708,182	($708,182)	$0	$8,547,332	8.29%
2017	$642,553	($642,553)	$0	$7,655,981	8.39%
2016	$630,801	($630,801)	$0	$8,427,920	7.48%
2015	$573,685	($573,685)	$0	$7,732,208	7.42%

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

Notes to Required Supplementary Information
For the Year Ended June 30, 2022

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, 2020.

Changes of assumptions.

All actuarial assumptions and the actuarial cost method are unchanged from the las actuarial valuation as of July 1, 2020.

Schedule of Employer's Share of Net OPEB Liability

ND Public Employees Retirement System
Last 10 Fiscal Years*

	Employer's proportion of the net OPEB liability (asset)	Employer's proportionate share of the net OPEB liability (asset)	Employer's covered-employee payroll	Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2022	0.769127%	$427,768	$8,385,470	5.10%	76.63%
2021	0.776550%	$653,232	$8,852,437	7.38%	63.38%
2020	0.785778%	$631,127	$8,768,169	7.20%	63.13%
2019	0.781137%	$615,199	$8,547,332	7.20%	61.89%
2018	0.707681%	$559,783	$7,655,981	7.31%	59.78%

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

Schedule of Employer Contributions

ND Public Employees Retirement System
Last 10 Fiscal Years*

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered-employee payroll	Contributions as a percentage of covered-employee payroll
2022	$124,973	($124,973)	$0	$9,853,622	1.27%
2021	$122,209	($122,209)	$0	$9,218,872	1.33%
2020	$123,089	($123,089)	$0	$9,096,923	1.35%
2019	$127,521	($127,521)	$0	$9,007,040	1.42%
2018	$113,390	($113,390)	$0	$8,547,332	1.33%

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

Notes to Required Supplementary Information
For the Year Ended June 30, 2022

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, 2020.

Changes of assumptions.

All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2020.

SUPPLEMENTARY INFORMATION
Schedule of Appropriations
For the Year Ended June 30, 2022

OBJECT	2021-2023 Final Appropriation	2022 Expenses/ Transfers	Balance June 30, 2022
Salaries and wages	$ 50,560,209	$ 21,627,433	$ 28,932,776
Operating expenses	36,817,000	14,841,264	21,975,736
Agriculture promotion	500,000	30,665	469,335
Contingency	500,000		500,000
TOTAL	$ 88,377,209	$ 36,499,362	$ 51,877,847
SOURCE			
Special fund authority	$ 88,377,209	$ 36,499,362	$ 51,877,847
TOTAL	$ 88,377,209	$ 36,499,362	$ 51,877,847

2021-2023 Appropriation amounts come directly from the North Dakota Session Laws, Chapter 42, Senate Bill 2014.

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:

	2022
Total operating expenses	376,069,392
Adjustments:	
Material cost	(333,147,292)
Depreciation	(6,446,563)
Change in compensated absences	80,805
Pension expense	(481,668)
OPEB expense	47,381
Demurrage	346,642
Agriculture promotion	30,665
Expenses per schedule of appropriations	$ 36,499,362

STATE AUDITOR
Joshua C. Gallion

Office of the State Auditor

PHONE
(701) 239-7250

FAX
(701) 328-2345

NORTH DAKOTA OFFICE OF THE STATE AUDITOR

Fargo Office
1655 S. 43rd St., Ste. 203
Fargo, ND 58103

www.nd/gov/auditor

ndsao@nd.gov

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 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 business-type activities of the North Dakota Mill and Elevator Association, as of and for the year ended June 30, 2022, 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 thereon dated October 28, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Mill and Elevator Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Mill and Elevator's 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 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 Mill and Elevator Association's financial statements are 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 statements. 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'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
October 28, 2022

STATE AUDITOR
Joshua C. Gallion

PHONE
(701) 239-7250

FAX
(701) 328-2345

Office of the State Auditor

NORTH DAKOTA OFFICE OF THE STATE AUDITOR
Fargo Office
1655 S. 43rd St., Ste. 203
Fargo, ND 58103

www.nd/gov/auditor

ndsao@nd.gov

Governance Communication

October 28, 2022

Industrial Commission

Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the business-type activities, of the North Dakota Mill and Elevator Association for the year ended June 30, 2022 and have issued our report thereon dated October 28, 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 July 8, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitive 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. As described in Note 1, the Mill and Elevator Association changed accounting policies related to leases by adopting Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, in fiscal year 2022. We noted no transactions entered into by the North Dakota Mill and Elevator Association during fiscal year 2022 for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on the management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimaets are particularly senesite because of their significance to the financial statements and because of the possibility that that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the North Daktoa Mill and Elevator Association's 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, is used to compute depreciation on capital assets. Management's estimate of allowance for uncollectible receivables 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, 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. Management has corrected all such misstatements as detailed below:

Account Description	Debit	Credit	Explanation
Statement of Net Position			
Invested in capital assets net position	$ 7,262,976		To properly report net position per GASB 34
Unrestricted net position		$ 7,262,976	

In addition, none of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

The amounts reported below detail the uncorrected misstatements of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

Account Description	Debit	Credit	Explanation
Statement of Net Position			
Lease Liability	$ 242,626		To project a likely misstatement to reduce lease liability for leases that had expired and/or had the wrong end date.
Leased Right of Use Assets		$ 242,626	

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 October 28, 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 North Dakota Mill and Elevator

Association's financial statements 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 North Dakota Mill and Elevator Association'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

We applied certain limited procedures to the Management Discussion and Analysis, 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 which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Appropriations, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquires 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.

Restriction on Use

This information is intended solely for the use of Legislative Audit and Fiscal Review Committee, the Industrial Commission, 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

NORTH DAKOTA STATE AUDITOR'S OFFICE
600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505

ND.gov/Auditor NDSAO@nd.gov 701-328-2241
Facebook.com/NDStateAuditor Linkedin.com/company/NDStateAuditor