



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## North Dakota Mill and Elevator Association

Audit Report for the Years Ended June 30, 2023 and 2022

Client Code 475



# TABLE OF CONTENTS

<b>INDEPENDENT AUDITOR’S REPORT</b>	<b>1</b>
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	<b>5</b>
<b>FINANCIAL STATEMENTS</b>	<b>9</b>
Comparative Statement of Net Position	9
Comparative Statement of Revenues, Expenses, and Changes in Net Position	10
Comparative Statement of Cash Flows	11
Notes to the Financial Statements	12
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	<b>36</b>
Schedule of Employer’s Share of Net Pension Liability	36
Schedule of Employer Contributions	36
Notes to Required Supplementary Information	37
Schedule of Employer’s Share of Net OPEB Liability	38
Schedule of Employer Contributions	38
Notes to Required Supplementary Information	39
<b>SUPPLEMENTARY INFORMATION</b>	<b>40</b>
Schedule of Appropriations	40
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing     Standards</i>	41
Governance Communication	43



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**INDEPENDENT AUDITOR'S REPORT**

Members of the Legislative Assembly

Industrial Commission

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

**Report on the 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 years ended June 30, 2023 and 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, 2023 and 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 Matter***

As discussed in Note 1, the financial statements of the North Dakota Mill and Elevator Association are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the 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, 2023 and 2022, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***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 23, 2023 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 23, 2023



## 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, 2023. Please read this information in conjunction with the financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

#### Condensed Financial Data

	FY 2023	FY 2022	FY 2021
Current Assets	\$ 130,869,833	\$ 142,549,577	\$ 85,572,875
Noncurrent Assets	7,316,413	934,959	821,191
Capital Assets	178,485,939	158,945,834	127,583,562
Total Assets	<u>\$ 316,672,185</u>	<u>\$ 302,430,370</u>	<u>\$ 213,977,628</u>
Deferred Outflow of Resources	\$ 17,792,067	\$ 16,830,966	\$ 16,965,528
Current Liabilities	\$ 113,671,512	\$ 131,851,550	\$ 56,750,590
Noncurrent Liabilities	86,273,461	53,962,626	60,325,694
Total Liabilities	<u>\$ 199,944,973</u>	<u>\$ 185,814,176</u>	<u>\$ 117,076,284</u>
Deferred Inflow of Resources	\$ 9,485,629	\$ 16,547,166	\$ 3,938,828
Invested in Capital Assets	\$ 135,431,478	\$ 136,668,904	\$ 127,583,562
Unrestricted	(10,397,828)	(19,768,910)	(17,655,518)
Total Net Position	<u>\$ 125,033,650</u>	<u>\$ 116,899,994</u>	<u>\$ 109,928,044</u>
Operating Revenue			
Gross Sales	\$ 532,743,300	\$ 473,013,523	\$ 339,161,011
Sales Deductions	(86,902,223)	(80,550,375)	(71,335,777)
Net Sales	<u>\$ 445,841,077</u>	<u>\$ 392,463,148</u>	<u>\$ 267,825,234</u>
Nonoperating Revenue			
Interest Income	90,643	3,298	4,431
Miscellaneous	35,616	154,340	361,366
Total Revenues	<u>\$ 445,967,336</u>	<u>\$ 392,620,786</u>	<u>\$ 268,191,031</u>
Operating Expenses			
Material Cost	\$ 375,142,839	\$ 333,147,294	\$ 210,828,503
Manufacturing, Selling, General	48,487,503	42,922,097	42,633,744
Nonoperating Expenses			
Interest Expense	5,025,601	1,842,941	1,247,260
Other	73,128	30,665	21,205
Total Expenses	<u>\$ 428,729,071</u>	<u>\$ 377,942,997</u>	<u>\$ 254,730,712</u>
Revenue Over Expenses	\$ 17,238,265	\$ 14,677,789	\$ 13,460,320
Transfer to Industrial Commission	(54,520)		(47,080)
Transfer to General Fund	(8,188,176)	(6,971,950)	(6,393,652)
Transfer to Ag Fuel Tax Fund	(861,913)	(733,889)	(673,016)
Change in Net Position	<u>\$ 8,133,656</u>	<u>\$ 6,971,950</u>	<u>\$ 6,346,572</u>
Beginning Net Position, as restated	\$ 116,899,994	\$ 109,928,044	\$ 103,581,472
Ending Net Position	<u>\$ 125,033,650</u>	<u>\$ 116,899,994</u>	<u>\$ 109,928,044</u>

- Gross sales reached \$532,743,000.
- During the fiscal year, the Mill shipped 15,931,000 hundredweight of flour.
- The Mill made a profit of \$17,238,000.
- Mill operations provided more than \$424,326,000 to the region and another \$984,436,000 in secondary economic activity for a total economic impact of more than \$1,408,762,000.

## RESULTS OF OPERATIONS

Certain operating information is set forth below, as a percentage of gross sales for the fiscal years ended June 30, 2023, June 30, 2022 and June 30, 2021:

	<u>FY 2023</u>	<u>FY 2022</u>	<u>FY 2021</u>
Gross Margin	13.3%	12.5%	16.8%
Material Costs	70.4%	70.4%	62.6%
Operating Costs	9.1%	9.1%	12.6%
Profits	3.2%	3.1%	4.0%

Gross sales reached \$532,743,000 for the fiscal year compared to \$473,013,000 last year and \$339,161,000 in fiscal year 2021. Sales of spring wheat flour were 14,631,000 hundredweight or 92 percent of our total sales while sales of durum products were 1,300,000 hundredweight. This compares to sales of 14,362,000 hundredweight of spring wheat flour and 1,245,000 hundredweight of durum products last year. Bulk flour sales represent 84 percent of the flour sold. Flour packed in bags accounted for 16 percent of the flour sold.

As a result of this sales volume, the Mill spent more than \$366,191,000 buying wheat and durum. This is up from the previous year purchases of \$319,708,000 and up from purchases in fiscal year 2021 of \$205,702,000. In fiscal year 2023 the Mill settled the purchase of 35,634,000 bushels of wheat and durum while in fiscal year 2022 the Mill settled the purchase of 31,459,000 bushels. The majority of the grain purchased is from North Dakota growers or grain elevators.

In addition to spending over \$366,191,000 on grain, most of which went to North Dakota farmers, the Mill also spent \$35,871,000 with other North Dakota based suppliers. Payroll costs for the North Dakota Mill were \$22,264,000 for the year ended June 30, 2023. These three items when added together show that the Mill provided a direct economic impact to the region of over \$424,326,000. 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 \$984,436,000 in secondary economic activity resulting in a total economic impact of more than \$1,408,686,000.

Operating costs were \$48,488,000 compared to \$42,922,000 last year and \$42,634,000 in fiscal year 2021. This is an increase of \$5,565,000 from last year. The primary causes for this increase in operating cost is due to the increase in fumigation costs, increases in wages and benefits, increased insurance costs, and increased depreciation costs. Operating cost per hundredweight of production increased to \$3.03 from \$2.74 in fiscal year 2022 and \$2.71 in fiscal year 2021.



Gross margins as a percent of gross sales were 13.3 percent for fiscal year 2023 moving from 12.5 percent in fiscal year 2022 and 16.8 percent in fiscal year 2021. Profits as a percent of gross sales were 3.2 percent compared to 3.1 percent last year and 4.0 percent in fiscal year 2021. The Mill experienced a profit of \$17,238,000 compared to a profit of \$14,678,000 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 \$125,000,000 operating line of credit with the Bank of North Dakota. The Mill also has a term note and a construction note with the Bank of North Dakota.

## **CASH FLOWS FROM OPERATIONS**

Operating activities for the year ended June 30, 2023, provided cash of \$42,972,000 compared to a use of \$7,922,000 in fiscal year 2022 and providing cash of \$17,762,000 in fiscal year 2021. Cash was used primarily for capital projects and transfers to APUF and the General Fund. There was an operating profit for this same period of \$22,211,000 compared to \$16,394,000 in fiscal year 2022 and \$14,363,000 in 2021.

## **CASH FLOWS FROM FINANCING ACTIVITIES**

The North Dakota Mill had \$57,637,000 of short-term debt outstanding and payable to the Bank of North Dakota on June 30, 2023 compared to \$69,000,000 last year and \$26,000,000 in fiscal year 2021. The Mill also had \$43,902,000 in long term debt outstanding and payable to the Bank of North Dakota on June 30, 2023 compared to \$32,748,000 in fiscal year 2022 and \$36,401,000 in fiscal year 2021.

## **NET POSITION**

Current assets decreased \$5,327,000 from last year. This decrease from last year is due primarily to decreases in accounts receivable. Receivables decreased \$11,451,000 while inventories rose \$6,173,000 from last year's values.

The carrying value of capital assets increased \$19,540,000 to \$178,486,000 for the year ended June 30, 2023. For more detailed information regarding capital assets and long-term debt activity see the Notes to the Financial Statements.

Current liabilities decreased \$18,180,000 from last year. Long term liabilities increased \$14,131,000 from last year. The major changes were in the long term notes payable to the Bank of North Dakota, which increased \$11,061,000 and to the net pension liability which increased \$15,675,000. The total net position increased by \$8,134,000, resulting in an improvement in overall financial position.

## COMMODITY PRICE RISK

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

## INDUSTRY

U.S. annual wheat flour production increased in 2022 to 430 million hundredweights up 2.2% from 2021. Production of whole wheat flour in the U.S. was estimated at 19.16 million hundredweights which is a 3% decrease from 2021. Durum flour and semolina production was 30.6 million hundredweights, up 1.5% from 2021. 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 14.1%. Harvest conditions were good. Spring wheat quality has an effect on flour quality. The crop this year is working well for our customers.

**FINANCIAL STATEMENTS**  
**Comparative Statement of Net Position**

<b>ASSETS</b>	June 30, 2023	June 30, 2022
Current assets:		
Cash and cash equivalents	\$ 225	\$ 316,384
Receivables, net (note 4)	80,692,136	100,614,091
Inventories (note 5)	46,036,722	39,864,086
Notes receivable	2,117,647	
Prepaid expense	2,023,103	1,755,016
Total current assets	\$ 130,869,833	\$ 142,549,577
Noncurrent assets:		
Notes receivable	\$ 6,352,941	
Patronage capital credits	688,471	\$ 659,959
Other assets	275,000	275,000
Capital assets, net (note 6)	178,485,938	158,945,834
Total noncurrent assets	185,802,350	159,880,793
Total assets	\$ 316,672,183	\$ 302,430,370
 <b>DEFERRED OUTFLOW OF RESOURCES</b>		
Accumulated decrease in fair value of hedging derivative instruments	\$ 148,375	\$ 5,747,088
Derived from pensions	17,059,774	10,794,194
Derived from other post-employment benefits	583,918	289,684
Total deferred outflows of resources	\$ 17,792,067	\$ 16,830,966
 <b>LIABILITIES</b>		
Current liabilities:		
Checks issued in excess of cash	\$ 3,291,163	
Accounts payable and other liabilities (note 7)	31,492,835	\$ 38,294,751
Due to state general fund	8,188,175	6,971,950
Due to ag products utilization fund	861,913	733,889
Hedging derivative instruments	148,375	5,747,088
Short term notes payable	57,636,505	69,000,000
Long-term liabilities - current portion		
Compensated absences	98,609	95,369
Notes payable	3,838,349	3,745,527
Lease liability	8,115,585	7,262,977
Total current liabilities	\$ 113,671,509	\$ 131,851,551
Noncurrent liabilities:		
Net other post-employment benefit liability	\$ 939,974	\$ 427,768
Net pension liability	24,149,157	8,474,445
Long-term liabilities - noncurrent portion		
Compensated absences	1,079,519	1,044,049
Notes payable	40,063,712	29,002,410
Lease liability	20,041,099	15,013,953
Total noncurrent liabilities	86,273,461	53,962,625
Total liabilities	\$ 199,944,970	\$ 185,814,176
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Derived from pensions	\$ 9,477,546	\$ 16,388,877
Derived from other post-employment benefits	8,083	158,289
Total deferred inflows of resources	\$ 9,485,629	\$ 16,547,166
 <b>NET POSITION</b>		
Invested in capital assets	\$ 135,431,478	\$ 136,668,905
Unrestricted	(10,397,827)	(19,768,911)
Total net position	\$ 125,033,651	\$ 116,899,994

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

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

<b>OPERATING REVENUES</b>	June 30, 2023	June 30, 2022
Sales (net of sales deductions of \$86,902,224 and \$80,550,372, respectively)	\$ 445,841,075	\$ 392,463,149
Total operating revenues	\$ 445,841,075	\$ 392,463,149
<b>OPERATING EXPENSES</b>		
Material cost	\$ 375,142,840	\$ 333,147,292
Wages and benefits	24,761,502	21,980,915
Repairs and maintenance	3,670,118	2,672,582
Operating supplies	1,620,052	1,822,172
Utilities	5,046,128	4,761,065
Insurance	2,178,314	1,996,251
Outside services	2,115,462	1,692,830
Office supplies	75,352	125,107
Computer expense	371,148	291,000
Communications	64,938	63,344
Travel and entertainment	266,680	215,536
Employee expense	348,348	189,767
Safety expense	198,935	258,633
Postage and mailing	38,825	27,491
Advertising	153,967	140,018
Dues and subscriptions	228,416	199,430
Legal and professional	49,229	39,396
Depreciation	7,300,087	6,446,563
Total operating expenses	\$ 423,630,341	\$ 376,069,392
Operating income	\$ 22,210,734	\$ 16,393,757
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	\$ 90,643	\$ 3,298
Interest expense	(5,025,601)	(1,842,941)
Disposal of assets	(120,074)	(60,479)
Miscellaneous income	155,690	214,819
Other expense	(73,127)	(30,665)
Total nonoperating expenses	\$ (4,972,469)	\$ (1,715,968)
Gain before transfers	\$ 17,238,265	\$ 14,677,789
Transfer to state general fund	\$ (8,188,175)	\$ (6,971,950)
Transfer to ag products utilization fund	(861,913)	(733,889)
Transfer to Industrial Commission	(54,520)	
Change in net position	\$ 8,133,657	\$ 6,971,950
Total net position - beginning of year	\$ 116,899,994	\$ 109,928,044
Total net position - ending	\$ 125,033,651	\$ 116,899,994

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

## Comparative Statement of Cash Flows

	June 30, 2023	June 30, 2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 544,403,772	\$ 425,418,084
Payments to suppliers	(479,695,166)	(411,798,619)
Payments to employees	(21,736,183)	(21,541,515)
Net cash provided (used) by operating activities	<u>\$ 42,972,423</u>	<u>\$ (7,922,050)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from noncapital debt	\$ 59,950,464	\$ 65,000,000
Principal paid on noncapital debt	(75,057,611)	(25,653,273)
Interest paid on noncapital debt	(4,842,150)	(1,842,941)
Ag promotion	(73,128)	(30,665)
Transfer to Industrial Commission	(54,520)	
Transfer to state general fund	(6,971,950)	(6,393,652)
Transfer to ag products utilization fund	(733,889)	(673,016)
Net cash provided (used) by noncapital financing activities	<u>\$ (27,782,784)</u>	<u>\$ 30,406,453</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	\$ 14,897,776	
Principal paid on capital debt and leases	(8,295,991)	\$ (7,911,957)
Interest paid on capital debt and leases	(815,913)	(393,674)
Acquisition and construction of capital assets	(21,301,583)	(15,720,219)
Net cash used by capital and related financing activities	<u>\$ (15,515,711)</u>	<u>\$ (24,025,850)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income on investments	\$ 9,913	\$ 3,298
Net cash provided by investing activities	<u>\$ 9,913</u>	<u>\$ 3,298</u>
Net increase in cash and cash equivalents	\$ (316,159)	\$ (1,538,149)
Cash and cash equivalents, beginning	316,384	1,854,533
Cash and cash equivalents, ending	<u>\$ 225</u>	<u>\$ 316,384</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 22,210,734	\$ 16,393,757
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	15,844,462	14,486,355
Pension and OPEB expense	3,639,448	1,476,009
Interest expense paid on lease activities	632,462	393,674
Other nonoperating income	209,197	214,814
Decrease (Increase) in receivables, net	19,921,956	(47,810,255)
Decrease (Increase) in notes receivable	(8,470,677)	
Decrease (Increase) in inventories	(6,172,638)	(9,930,072)
Decrease (Increase) in prepaid expense	(268,087)	(774,523)
Decrease (Increase) in patronage capital credits	(28,512)	(113,768)
Increase (Decrease) in accounts payable	(3,951,108)	18,822,058
Increase (Decrease) in accrued payroll	421,042	85,919
Increase (Decrease) in other liabilities	19,315	(43,491)
Increase (Decrease) in accrued sick and vacation pay	38,709	(80,805)
Decrease (Increase) in deferred outflows for pension and OPEB	(1,073,880)	(1,041,722)
Net cash provided by operating activities	<u>\$ 42,972,423</u>	<u>\$ (7,922,050)</u>
<b>SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS</b>		
Assets acquired through lease	\$ 14,348,772	\$ 30,189,019
Total non cash transactions	<u>\$ 14,348,772</u>	<u>\$ 30,189,019</u>

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

## Notes to the Financial Statements

### NOTE 1 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, as summarized below and the financial statements for the North Dakota Mill and Elevator Association (Mill) are in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### A. REPORTING ENTITY

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

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

#### B. BASIS OF PRESENTATION

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

#### C. BASIS OF ACCOUNTING

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

#### D. CASH AND CASH EQUIVALENTS

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



## **E. RECEIVABLES**

Accounts receivable represents amounts due from customers for credit sales. Other receivables consist of grain margin accounts, and promissory notes from employees. Notes receivable represents amounts due from customers. 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 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*.

During fiscal year 2023, the Mill adopted 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*, and GASB Statement No. 99, *Omnibus 2022*

The Mill will implement the following new pronouncements for fiscal years ending after 2023: 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, 2023 and 2022, the carrying amounts of the Mill's deposits were \$225 and \$316,384, respectively, and the bank balances were \$1,000,000 and \$1,398,017, respectively. All deposits are exposed to custodial credit risk because they are not covered by depository insurance and the deposits are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the state of North Dakota (N.D.C.C. section 6-09-10).

#### NOTE 4 | RECEIVABLES

Receivables at June 30, 2023 and 2022 consist of the following:

June 30, 2023	Gross Receivables	Allowance		Net Receivables
		Bad Debts	Billbacks/ Promotional	
Current Receivables				
Accounts	\$ 80,685,389	\$ (2,536,627)	\$ (690,788)	\$ 77,457,974
Margin accounts	3,167,535			3,167,535
Other	66,627			66,627
Total Current Receivables	<u>\$ 83,919,551</u>	<u>\$ (2,536,627)</u>	<u>\$ (690,788)</u>	<u>\$ 80,692,136</u>

June 30, 2022	Gross Receivables	Allowance		Net Receivables
		Bad Debts	Billbacks/ Promotional	
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	<u>\$ 104,503,459</u>	<u>\$ (3,456,072)</u>	<u>\$ (433,296)</u>	<u>\$ 100,614,091</u>

At June 30, 2023 and 2022, the ages of gross accounts receivable were as follows:

	2023	2022
Current	\$ 42,692,976	\$ 50,771,488
1-30 Days	25,556,752	29,016,470
31-60 Days	8,819,340	11,697,905
61-90 Days	2,378,607	2,843,923
Over 90 Days	1,237,714	2,904,404
	<u>\$ 80,685,389</u>	<u>\$ 97,234,190</u>

#### NOTE 5 | INVENTORIES

At June 30, 2023 and 2022, inventories consisted of the following:

	2023	2022
Grain	\$ 33,477,529	\$ 27,266,713
Flour, Feed, Resale	11,427,208	11,732,993
Supplies	1,131,985	864,380
Total Inventories	<u>\$ 46,036,722</u>	<u>\$ 39,864,086</u>

The Mill's net position in the grain market at June 30, 2023 and 2022 was as follows:

	2023 Bushels		2022 Bushels	
	Wheat	Durum	Wheat	Durum
Company Owned (Priced) Grain and Flour on Hand	2,733,924	217,338	1,783,585	358,905
Open Purchase Contracts				
Cash	3,284,556	1,030,798	5,507,731	784,946
Futures	6,650,000		4,790,000	
Subtotal	12,668,480	1,248,136	12,081,316	1,143,851
Committed to Production	(12,928,349)	(1,151,782)	(12,424,198)	(889,731)
Net Position (Short) Long	(259,869)	96,354	(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 years ended June 30, 2023 and 2022 is below:

	Balance July 1, 2022	Additions	Deletions	Transfers	Balance June 30, 2023
<b>Capital Assets, Non-Depreciable:</b>					
Land	\$ 1,783,611				\$ 1,783,611
Construction in Progress	26,141,763	\$ 21,323,657		\$ (30,349,875)	17,115,545
Total Capital Assets, Non-Depreciable	\$ 27,925,374	\$ 21,323,657	\$ -	\$ (30,349,875)	\$ 18,899,156
<b>Capital Assets, Depreciable/Amortizable:</b>					
Infrastructure	\$ 17,891,799		\$ (353,459)	\$ 1,248,952	\$ 18,787,292
Buildings	72,188,025		(139,574)	413,267	72,461,718
Machinery & Equipment	102,125,191	\$ 62,500	(737,308)	28,502,555	129,952,938
Intangibles	1,894,093			149,539	2,043,632
Furniture & Fixtures	1,017,392		(30,188)	35,562	1,022,766
Leased Right of Use Asset	29,552,600	14,348,772	(3,141,008)		40,760,364
Total Capital Assets, Depreciable/Amortizable	\$ 224,669,100	\$ 14,411,272	\$ (4,401,537)	\$ 30,349,875	\$ 265,028,710
<b>Less Accumulated Depreciation and Amortization:</b>					
Infrastructure	\$ 3,400,894	\$ 645,687	\$ (353,459)		\$ 3,693,122
Buildings	21,194,337	1,833,752	(83,759)		22,944,330
Machinery & Equipment	59,651,739	4,571,845	(606,991)		63,616,593
Intangibles	1,216,408	168,095	(170)		1,384,333
Furniture & Fixtures	781,757	77,321	(30,188)		828,890
Leased Right of Use Asset	7,403,505	8,544,375	(2,973,220)		12,974,660
Total Accumulated Depreciation and Amortization	\$ 93,648,640	\$ 15,841,075	\$ (4,047,787)		\$ 105,441,928
Total Capital Assets, Depreciable, Net	\$ 131,020,460	\$ (1,429,803)	\$ (353,750)	\$ 30,349,875	\$ 159,586,782
Capital Assets, Net	\$ 158,945,834	\$ 19,893,854	\$ (353,750)	\$ -	\$ 178,485,938

	Balance July 1, 2021	Additions	Deletions	Transfers	Balance June 30, 2022
<b>Capital Assets, Non-Depreciable:</b>					
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
<b>Capital Assets, Depreciable/Amortizable:</b>					
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/Amortizable	\$ 184,497,596	\$ 30,189,019	\$ (1,966,347)	\$ 11,948,832	\$ 224,669,100
<b>Less Accumulated Depreciation and Amortization:</b>					
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 and Amortization	\$ 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)	\$ -	\$ 158,945,834

## NOTE 7 | ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2023 and 2022 were as follows:

	2023	2022
Accounts Payable	\$ 10,724,343	\$ 16,493,852
Scale Accrued Purchases	16,193,116	17,665,878
Accrued Gain Sharing	4,047,147	3,314,540
Accrued Payroll	251,270	747,649
Accrued Payroll Taxes and Benefits	216,782	31,969
Accrued Commissions	60,177	40,863
Total accounts payable and accrued liabilities	\$ 31,492,835	\$ 38,294,751

## 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 \$125 million as of June 30, 2023 and \$67.3 million is unused. The line of credit is for \$100 million as of June 30, 2022 and \$31 million 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, 2023 and 2022, the rates were 6.21% and 1.89%, respectively. Short-term debt activity for the year ended June 30, 2023 and 2022 was as follows:



	Balance July 1, 2022	Draws	Repayments	Balance June 30, 2023
Line of credit	\$ 69,000,000	\$ 59,950,464	\$ (71,313,959)	\$ 57,636,505

	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, 2023 and 2022 is as follows:

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Current Portion	Noncurrent Portion
Compensated Absences	\$ 1,139,418	\$ 950,840	\$ (912,130)	\$ 1,178,128	\$ 98,609	\$ 1,079,519
Notes Payable	32,747,937	14,897,776	(3,743,652)	43,902,061	3,838,349	40,063,712
Lease Liability	22,276,930	14,348,772	(8,469,018)	28,156,684	8,115,585	20,041,099
Total Long-Term Liabilities	\$ 56,164,285	\$ 30,197,388	\$ (13,124,800)	\$ 73,236,873	\$ 12,052,543	\$ 61,184,330

	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 million 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. In fiscal year 2023, 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. In fiscal year 2023, the Mill drew down \$14,897,776 for the long term note with the remaining to be drawn down in fiscal year 2024. 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
2024	\$ 3,838,349	\$ 1,130,305	\$ 4,968,654
2025	6,541,898	1,031,390	7,573,288
2026	7,598,637	931,823	8,530,460
2027	7,809,057	829,737	8,638,794
2028	9,304,049	391,521	9,695,570
2029 - 2030	8,810,071	231,658	9,041,729
	<u>\$ 43,902,061</u>	<u>\$ 4,546,434</u>	<u>\$ 48,448,495</u>

## NOTE 11 | LEASE OBLIGATIONS

During fiscal years ended June 30, 2023 and 2022, the Mill had leases for bulk rail and box cars with original terms of 1 to 26 years on 1035 and 991 cars, respectively. 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 is as follows:

	Balance			Balance
	July 1, 2022	Additions	Decreases	June 30, 2023
<b>Capital Assets:</b>				
Leased Land	\$ 104,472			\$ 104,472
Leased Infrastructure	82,367			82,367
Leased Machinery & Equipment	29,359,874	\$ 14,348,772	\$ (3,141,008)	40,567,638
Leased Furniture & Fixtures	5,888			5,888
Total Leases Being Amortized	<u>\$ 29,552,601</u>	<u>\$ 14,348,772</u>	<u>\$ (3,141,008)</u>	<u>\$ 40,760,365</u>
<b>Less Accumulated Amortization:</b>				
Leased Land				
Leased Infrastructure	\$ 22,641	\$ 92,290		\$ 114,931
Leased Machinery & Equipment	7,379,183	8,450,403	(2,973,220)	12,856,366
Leased Furniture & Fixtures	1,682	1,682		3,364
Total Accumulated Amortization	<u>\$ 7,403,506</u>	<u>\$ 8,544,375</u>	<u>\$ (2,973,220)</u>	<u>\$ 12,974,661</u>
<b>Leased Right of Use Asset, Net</b>	<u>\$ 22,149,095</u>	<u>\$ 5,804,397</u>	<u>\$ (167,788)</u>	<u>\$ 27,785,704</u>
	Balance			Balance
	July 1, 2021	Additions	Decreases	June 30, 2022
<b>Capital Assets:</b>				
Leased Land	\$ -	\$ 104,472		\$ 104,472
Leased Infrastructure		82,367		82,367
Leased Machinery & Equipment		29,996,292	\$ (636,418)	29,359,874
Leased Furniture & Fixtures		5,888		5,888
Total Leases Being Amortized	<u>\$ -</u>	<u>\$ 30,189,019</u>	<u>\$ (636,418)</u>	<u>\$ 29,552,601</u>
<b>Less Accumulated Amortization:</b>				
Leased Land				
Leased Infrastructure		\$ 22,641		\$ 22,641
Leased Machinery & Equipment		8,015,601	\$ (636,418)	7,379,183
Leased Furniture & Fixtures		1,682	-	1,682
Total Accumulated Amortization	<u>\$ -</u>	<u>\$ 8,039,924</u>	<u>\$ (636,418)</u>	<u>\$ 7,403,506</u>
<b>Leased Right of Use Asset, Net</b>	<u>\$ -</u>	<u>\$ 22,149,095</u>	<u>\$ -</u>	<u>\$ 22,149,095</u>

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
2024	8,115,586	875,483	8,991,069
2025	6,457,058	664,240	7,121,298
2026	4,985,313	476,376	5,461,689
2027	3,741,101	308,197	4,049,298
2028	2,695,663	160,808	2,856,471
2029-2033	2,161,963	92,124	2,254,087
	<u>\$28,156,684</u>	<u>\$ 2,577,228</u>	<u>\$ 30,733,912</u>

## 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 \$6 million for fiscal year 2023 and \$5 million for fiscal year 2022, 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, 2023 and 2022, the Mill reported a liability of \$24,149,157 and \$8,474,445, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 and 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, 2022, the Mill’s proportion was 0.838493 percent, which was an increase of 0.025441 percent from its proportion measured as of June 30, 2021. As 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 years ended June 30, 2023 and 2022, the Mill recognized a pension expense of \$3,454,939 and \$1,398,417, respectively. At June 30, 2023 and June 30, 2022, the Mill reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>2023</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 125,970	\$ 461,291
Changes of assumptions	14,441,551	8,952,962
Net difference between projected and actual earnings on pension	883,854	
Changes in proportion and differences between employer contributions and proportionate	651,262	63,293
Employer contributions subsequent to the measurement date	957,137	
<b>Total</b>	<b>\$ 17,059,774</b>	<b>\$ 9,477,546</b>

\$957,137 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, 2024.

	<b>2022</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
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		3,143,038
Changes in proportion and differences between employer contributions and proportionate share of contributions	351,570	151,913
Employer contributions subsequent to the measurement date	916,749	
<b>Total</b>	<b>\$ 10,794,194</b>	<b>\$ 16,388,877</b>

\$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:

<b>Year ended June 30:</b>	
2024	\$ 1,935,293
2025	2,135,411
2026	238,896
2027	2,315,491
2028	
Thereafter	

**Actuarial assumptions.** The total pension liability in the July 1, 2022 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	5.00%, 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 6.50%; the municipal bond rate is 3.69%; and the resulting Single Discount Rate is 5.10%.

**Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate.** The following presents the Mill's proportionate share of the net pension liability as of June 30, 2022 calculated using the discount rate of 5.10 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 (4.10 percent) or 1-percentage-point higher (6.10 percent) than the current rate:

	<b>1% Decrease (4.10%)</b>	<b>Current Discount Rate (5.10%)</b>	<b>1% Increase (6.10%)</b>
Employer's proportionate share of the net pension liability	\$31,875,226	\$24,149,157	\$17,806,322

The following presents the Mill's proportionate share of the net pension liability as of June 30, 2021 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:

	<b>1% Decrease (6%)</b>	<b>Current Discount Rate (7%)</b>	<b>1% Increase (8%)</b>
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, 2023 and 2022, the Mill reported a liability of \$939,974 and \$427,768, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as

of June 30, 2022 and 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, 2022, the Mill's proportion was 0.783110 percent, which was an increase of 0.013983 percent. 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 years ended June 30, 2023 and 2022, the Mill recognized OPEB expense of \$184,509 and \$77,592, respectively. At June 30, 2023 and 2022, the Mill reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>2023</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 22,284	\$ 8,083
Changes of assumptions	236,769	
Net difference between projected and actual earnings on OPEB plan investments	126,564	
Changes in proportion and differences between employer contributions and proportionate share of contributions	81,558	
Employer contributions subsequent to the measurement date	116,743	
Total	<u>\$ 583,918</u>	<u>\$ 8,083</u>

\$116,743 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, 2024.

	<b>2022</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
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 proportionate share of contributions	73,901	
Employer contributions subsequent to the measurement date	124,973	
<b>Total</b>	<b>\$ 289,684</b>	<b>\$ 158,289</b>

\$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:**

2024	\$ 126,612
2025	118,868
2026	98,772
2027	114,840
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	5.75%, 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%	5.85%
Small Cap Domestic Equities	6%	6.75%
Domestic Fixed Income	35%	0.50%
International Equities	26%	6.25%

**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 fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future 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, 2022, calculated using the discount rate of 5.39%, 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 (4.39 percent) or 1-percentage-point higher (6.39 percent) than the current rate:

	1% Decrease (4.39%)	Current Discount Rate (5.39%)	1% Increase (6.39%)
Employer's proportionate share of the net OPEB liability	\$1,199,821	\$939,974	\$721,840

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:

	<b>1% Decrease (5.50%)</b>	<b>Current Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
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, 2023 and 2022 was \$358,636 and \$349,865, respectively.

#### **NOTE 16 | CONCENTRATIONS**

The Mill sells a substantial portion of its product to five major customers. Sales to these customers totaled approximately 8,229,996 and 8,599,348 hundredweight for the years ended June 30, 2023 and 2022, respectively. For June 30, 2023 and 2022, sales to these customers were 52% and 55% of total sales, respectively.

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 years 2023 and 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 years ended June 30, 2023 and 2022, the Mill had a due to state general fund of \$8,188,175 and \$6,971,950, respectively.

Section 54-18-21 of the N.D.C.C. provides that the Industrial Commission shall transfer 5% of the net income earned by the Mill during that fiscal year to the Agricultural Products Utilization Fund. For the years ended June 30, 2023 and 2022, the Mill had a due to the Agricultural Products Utilization Fund of \$861,913 and \$733,889, respectively.

As referred to in Note 3, the Mill does all banking with the Bank of North Dakota. They also have a revolving line of credit with the Bank of North Dakota and notes payable, which are discussed in Notes 8 and 10.

The Mill paid the Industrial Commission, a state of North Dakota agency, \$54,520 in fiscal year 2023.

## **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 balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2023 and 2022 are as follows:

	2023		
	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs Level 3
	Total		
Liabilities			
Hedging Derivative Instruments	\$ 148,375	\$ 148,375	
Total	\$ 148,375	\$ 148,375	

  

	2022		
	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs Level 3
	Total		
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, 2023 and the changes in fair values of such hedging derivative instruments for the year then ended as reported in the 2023 financial statements are \$148,375, classified as Hedging Derivative Instruments (one contract equals 5000 bushels) and \$148,375, classified as Deferred Outflows of Resources – Accumulated decrease in fair value of hedging derivative instruments.

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 tables below shows the cost and market values of these spring wheat futures at June 30, 2023 and 2022:

2023

Month	# Contracts Long/(Short)	Average Cost	Quoted Prices in Active Mkts	Cost	
				Cost	Market Value
Sept. 23	617	8.3344	8.1700	\$25,661,225	\$25,204,450
Dec. 23	594	8.1983	8.2650	24,332,075	24,547,050
March 24	56	8.1068	8.3450	2,273,850	2,336,600
May 24	34	8.1904	8.3450	1,394,263	1,418,650
Sept. 24	20	7.7576	7.7800	775,763	778,000
Dec. 24	9	7.6800	7.7700	345,600	349,650
				<u>\$54,782,776</u>	<u>\$54,634,400</u>

2022

Month	# Contracts Long/(Short)	Average Cost	Quoted Prices in Active Mkts	Cost	
				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
				<u>\$53,941,100</u>	<u>\$48,194,014</u>

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

The Mill is exposed to rollover risk on grain futures trades whenever the hedge ratio (defined in aggregate of the size across all futures months relative to the underlying net cash position) does not equal 1.0. On June 30, 2023 and 2022, the tables below shows the hedge ratio by futures month going forward:

June 30, 2023		June 30, 2022	
Period	Hedge Ratio	Period	Hedge Ratio
September 2023	1.1	September 2022	1.0
December 2023	1.0	December 2022	1.0
March 2024	1.1	March 2023	1.0
May 2024	1.0	May 2023	0.9
September 2024	1.0	Net Position	1.0
December 2024	1.0		
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 \$460,250 per person and \$1,625,000 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, 2023 and 2022, the Mill had committed to purchase 3,84,556 and 5,507,731 bushels of spring wheat, respectively, and 1,030,798 and 784,946 bushels of durum, respectively.

In addition, at June 30, 2023 and 2022, construction commitments totaled \$46,129,454 and \$49,523,236, respectively, amounts authorized totaled \$63,245,000 and \$63,390,000, respectively, and amounts expended/construction in progress totaled \$17,115,546 and \$26,141,764, respectively.

**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
2023	0.838493%	\$24,149,157	\$9,733,537	248.10%	54.47%
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
2023	\$957,137	(\$957,137)	\$0	\$10,155,610	9.42%
2022	\$916,749	(\$916,749)	\$0	\$9,733,537	9.42%
2021	\$811,839	(\$811,839)	\$0	\$9,206,923	8.82%
2020	\$772,196	(\$772,196)	\$0	\$9,048,978	8.53%
2019	\$796,459	(\$796,459)	\$0	\$8,768,169	9.08%
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, 2023**

*Changes of benefit terms.*

The interest rate earned on member contributions decreased from 6.50 percent to 6.00 percent effective January 1, 2023 (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.*

The investment return assumption was updated from 7.00% to 6.50% beginning with the actuarial valuation as of July 1, 2022. All other actuarial assumptions used in the actuarial valuation as of July 1, 2022 were based on an experience review for the period from July 1, 2014 to July 1, 2019, and were adopted for first use commencing with the 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
2023	0.783110%	\$939,974	\$8,084,872	11.63%	56.28%
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
2023	\$116,743	(\$116,743)	\$0	\$10,155,610	1.15%
2022	\$124,973	(\$124,973)	\$0	\$8,084,872	1.55%
2021	\$122,209	(\$122,209)	\$0	\$8,385,470	1.46%
2020	\$123,089	(\$123,089)	\$0	\$8,852,437	1.39%
2019	\$127,521	(\$127,521)	\$0	\$8,768,169	1.45%
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, 2023**

*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.*

The investment return assumption was updated from 6.50% to 5.75% beginning with the actuarial valuation as of July 1, 2022. All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2021.

**SUPPLEMENTARY INFORMATION**  
**Schedule of Appropriations**  
**For the Biennium Ended June 30, 2023**

<b>OBJECT</b>	<b>2021-2023</b>	<b>2022</b>	<b>2023</b>	<b>Balance June 30, 2023</b>
	<b>Final Appropriation</b>	<b>Expenses/ Transfers</b>	<b>Expenses/ Transfers</b>	
Salaries and wages	\$ 50,560,209	\$ 21,627,433	\$ 22,157,224	\$ 6,775,552
Operating expenses	36,817,000	14,841,264	17,036,298	4,939,438
Agriculture promotion	500,000	30,665	73,128	396,207
Contingency	500,000			500,000
<b>TOTAL</b>	<b>\$ 88,377,209</b>	<b>\$ 36,499,362</b>	<b>\$ 39,266,650</b>	<b>\$ 12,611,197</b>
<b>SOURCE</b>				
Special fund authority	\$ 88,377,209	\$ 36,499,362	\$ 39,266,650	\$ 12,611,197
<b>TOTAL</b>	<b>\$ 88,377,209</b>	<b>\$ 36,499,362</b>	<b>\$ 39,266,650</b>	<b>\$ 12,611,197</b>

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 Revenues, Expenses, and Changes in Net Position to the Schedule of Appropriations:

	<b>2022</b>	<b>2023</b>
Total operating expenses	\$ 376,069,392	\$ 423,630,341
Adjustments:		
Material cost	(333,147,292)	(375,142,840)
Depreciation	(6,446,563)	(7,300,087)
Change in compensated absences	80,805	(38,709)
Pension expense	(481,668)	(2,497,803)
OPEB expense	47,381	(67,766)
Demurrage	346,642	610,386
Agriculture promotion	30,665	73,128
Expenses per schedule of appropriations	<b>\$ 36,499,362</b>	<b>\$ 39,266,650</b>



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**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in Accordance  
With Government Auditing Standards**

Independent Auditor's Report

Members of the Legislative Assembly

Industrial Commission

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

We have audited, in accordance with 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, 2023, 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 23, 2023.

**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 23, 2023



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**Governance Communication**

October 23, 2023

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 years ended June 30, 2023 and 2022 and have issued our report thereon dated October 23, 2023. 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 June 29, 2023. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Matters**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota 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 years 2023 and 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 estimates are particularly sensitive 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 Dakota 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 1, 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:

<b>Account Description</b>	<b>Debit</b>	<b>Credit</b>	<b>Explanation</b>
<b>Statement of Net Position</b>			
Notes receivable - noncurrent	\$ 6,352,941		To properly classify Notes Receivable between current and noncurrent
Notes receivable - current		\$ 6,352,941	

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.

There were no uncorrected misstatements of the financial statements.

### ***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 23, 2023.

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



**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,

A handwritten signature in black ink that reads "Robyn Hoffmann". The signature is written in a cursive style with a large initial 'R'.

Robyn Hoffmann, CPA  
Audit Manager



**NORTH DAKOTA STATE AUDITOR**  
**JOSHUA C. GALLION**

**NORTH DAKOTA STATE AUDITOR'S OFFICE**

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